



PROPERTY FOR INDUSTRY

ANNUAL REPORT 2009

Managed by
AMP capital
INVESTORS



Highlights

- Higher distributable profit and earnings, net dividend held steady
- Portfolio occupancy and rental resilience ahead of wider industrial market
- Successful leasing and tenant retention programme
- Solid progress on 2010 and 2011 lease expiries
- Three properties sold for a total of \$21.7 million*
- \$22 million Mount Wellington acquisition
- \$7 million development project announced at Peninsula Business Park
- Portfolio occupancy 99.5% as at 31 December 2009

* Includes one property sold in February 2009 and noted as a post-balance date event in the previous annual report



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Ricoh NZ, along with Hallmark Cards, took up occupancy at 12 Hugo Johnston Drive, Penrose, following refurbishment of the building by PFI.

Chairman's letter to shareholders

"Consistency and reliability are two hallmarks of PFI's history. The company's board and management are well aware of the expectations of shareholders that this track record will be maintained, through all manner of market conditions."

In 2009 – the company's 15th year since listing – the market conditions were very challenging. It is therefore very pleasing to report that in an environment where a number of other listed property entities reduced their dividends to investors, PFI delivered a net dividend equal to that of the previous year (which was the highest in the company's history).

This was achieved while also setting aside a portion of the distributable profit as retained earnings, for the second consecutive year. There has been no change to the company's long-standing policy of paying out 100% of net cash operating earnings. However, economic recovery is generally expected to be slow and your directors considered this retention prudent in the current environment.

The company's performance in 2009 was the result of a combination of factors:

- > A carefully-considered strategic response by the company to the effects of the global financial crisis
- > A high-quality, well-located portfolio which enjoys solid tenant demand
- > The comparative stability of the industrial property market.

Last year's annual report outlined the factors that the board and management had identified as offering the greatest opportunity to shape the company's performance – protecting cash flows through tenant retentions and leasing, security of banking facilities, a strengthened balance sheet and generation of funds for enhanced investment through property sales.

Since May 2008, the company has selectively sold five properties for a total of \$48.85 million. These sales, which were all completed at acceptable prices, reduced interest costs and assisted in the renewal of the company's banking facilities in late 2008.

The ability to divest assets as required and on acceptable terms is an endorsement of the quality of PFI's portfolio, and is an option that was not open to all of New Zealand's listed property entities.

Another notable aspect has been the sustained high occupancy level of the portfolio, which has outperformed the industrial market average (as general manager Ross Blackmore explains in more detail in the following report).

PFI NET DIVIDEND AND NORMALISED EARNINGS GROWTH 2000 – 2009



Source: Forsyth Barr research. Normalised earnings refers to the removal of one-off and non-cash items.



The continued focus of the PFI team has also included offering solutions in several instances of tenant hardship. The quality of the company's properties has assisted greatly in securing replacement tenants where required.

The valuable contribution from the company's rent reviews, at a time when market rents are retracing, is an outcome of the past decision to reweight in favour of an even mix of market and structured review mechanisms.

Recently, PFI has announced a prime \$22 million acquisition in Mount Wellington, followed by a pre-leased \$7 million development project at Peninsula Business Park in Avondale. This activity lifts the quality of the portfolio, and also results in longer lease terms, greater security of income and better prospects for rental growth.

Analysis of the company's financial result for 2009 should not overlook the fact that – for the second full year and in accordance with PFI's management fee structure – no performance incentive fee was payable to the manager. Lower asset values following portfolio revaluations also meant that the manager has received a lower base fee. PFI's management fee structure was introduced 10 years ago and is well regarded in New Zealand's listed property sector (for more detail, see the Company Structure section on page 15).

OUTLOOK

PFI makes a practice of beginning each year with momentum already underway and this is again the case in 2010, with solid progress being made on new leases, the recently-announced Peninsula Business Park development project, and the year's rent reviews.

The company continues to attract enquiry from new tenants, albeit at lower levels than the peaks of previous years.

Forecasts for the coming years show industrial property performing well in comparison to other commercial property classes.

As credit conditions appear to be easing, PFI will be assessing the costs, tenure and sources of debt capital available to the company.

A less positive development, potentially affecting all property investors, has been the announcements relating to proposed tax reforms. Although some of the initial proposals appear to have since been ruled out, the final form of changes is yet to be confirmed. We will update shareholders as new information comes to hand.

In closing, PFI's board and management find it very satisfying to have been able to provide shareholders with consistent and reliable returns. We again look forward to seeing many of you at the company's annual general meeting in May. (The Notice of Meeting for this event accompanies this report).

Peter Masfen
Chairman



"The company's portfolio occupancy, tenant retention rates, take-up by new tenants and rental performance are evidence of the advantages of owning many mid-sized properties in prime locations, appealing to a broad tenant market."

OVERVIEW

PFI's long-standing investment strategy is to maintain an investment portfolio that will outperform the market, regardless of the prevailing conditions. Even in buoyant times, the company is mindful to not only make the most of favourable conditions but also to provide resilience through the tougher times that will expose underlying risks or quality issues.

In 2009, the challenge for the company was to deliver an attractive return to shareholders from a lower revenue base as a result of the company's asset sales. These sales, while providing the benefit of reducing debt levels and gearing, can usually be expected to result in lower returns until the funds are reinvested. It is also relevant to point out that, while the impact of recessionary conditions on tenants has not shown through in the company's

financial performance, this has nevertheless required a total focus on existing and new tenants.

PFI's portfolio occupancy and rental performance during the year were ahead of the wider industrial market. PFI's occupancy rate of 99.5% at year-end (or 98.7% in February 2010) compares with 95.3% for the industrial market, according to CB Richard Ellis research. Meanwhile, independent valuers assessed that the market rents applicable to PFI's portfolio had reduced by 4.0% during 2009 – less than half the 9.0% fall experienced across the market.

PFI's year-end portfolio valuation also indicated that values have begun to stabilise in the second half of the year.

The company's portfolio occupancy, tenant retention rates, take-up by new tenants and rental performance are evidence of the advantages of owning many mid-sized properties in prime locations, appealing to a broad tenant market.

FINANCIAL RESULTS

PFI's rentals for 2009 were 3.2% lower than the previous year, at \$31.428 million, as a result of the company's asset sales. The full effect of these sales was partly offset

by new rentals from development projects completed in 2008 and 2009, as well as rent reviews. Consistent high portfolio occupancy was also a major contributor to the strength of the company's rentals.

There were significant reductions in two of the company's larger expense items. Interest costs were \$833,000 or 9.6% lower at \$7.852 million due to lower levels of borrowings for most of the year. Management fees were down \$362,000 or 16.0% as a consequence of reduced asset values.

The net operating profit after tax for distribution¹ for the year was \$15.920 million, showing a \$221,000 or 1.4% increase on the previous year.

Net earnings per share for the year, based on distributable profit¹, were 0.5% higher than the previous year, at 7.46 cents per share.

Shareholders have received a total net dividend for 2009 of 7.18 cents per share, consistent with 2008. On a gross basis, the total dividend was 9.074 cents per share, a 2.8% increase.

As mentioned in the Chairman's Letter, the company again retained part of the distributable profit for the year.

PFI's annual independent portfolio revaluation as at 31 December 2009 (following an earlier valuation review to June 30) has resulted in an unrealised net reduction in portfolio value of \$28.371 million or 7.67% over the 12 months.

This, along with NZ IFRS non-cash adjustments and loss on disposal of investment property (refer Note 9 for detail), means that PFI recorded a full-year loss after tax and unrealised losses of \$12.514 million for 2009, compared with a loss on a similar basis of \$31.912 million the previous year.

ACQUISITION

In December 2009, PFI acquired a prime, \$22 million Mount Wellington distribution centre in an off-market transaction.

This acquisition will enhance the company's earnings and weighted average lease term (WALT) and the overall quality of the company's portfolio.

The property, at 7-9 Niall Burgess Road, is located between two of PFI's existing properties on the Westfield Industrial Estate and is the company's 16th property in this precinct.

¹ A reconciliation of distributable profit can be found in Note 9 of the Notes to the Financial Statements in this report.



Manager's report

The purchase price reflects a yield of 8.5%. The tenant, DHL Supply Chain NZ, a subsidiary of Deutsche Post, has a seven-year lease term, with CPI-based rent reviews beginning in two years and taking place annually thereafter. The 17,000 sqm building was constructed in 1996 on a 2.912 hectare site.

RENT REVIEWS

The 2009 rent review programme of 32 rent reviews generated additional annual contract income of \$448,000. The average increase of 6.36% equates to 2.65% compounding annually over the average 2.36-year review period.

While growth in market rentals has been muted over the past two years, the company is now in a position to realise the benefits of its earlier decision to move a greater proportion of its leases on to structured review mechanisms (as distinct from those which are linked to market rents). The company's objective is to achieve a balance between structured reviews, providing a modest level of growth, and market reviews delivering stronger growth when conditions improve.

More than half of the 46 rent reviews to be completed in 2010 are on CPI-based or stepped review mechanisms.

LEASING, TENANT RETENTION AND LEASE RESTRUCTURING

In 2009, PFI concluded 19 new leases and five tenant retentions. The weighted average lease term (WALT) of these new leases was 5.77 years, meaning the portfolio WALT as at 31 December 2009 was 4.52 years – very close to the 4.67 years at the end of 2008.

A new lease secured post-balance date will see PFI's property at 76 Carbine Road, Mount Wellington, extensively refurbished for communications equipment importer and distributor Atlas Gentech (NZ), a new tenant which has taken an eight-year lease.

In 2010, the company has 12 leases subject to expiry. Five of these (including the three largest) have already been resolved, securing \$1.74 million of the \$2.54 million rent roll. Three tenants with leases expiring in 2010 have been retained and two new tenants welcomed into the portfolio.

In addition, the newly-announced development project for Dunlop Living (see following page) represents significant progress on the space becoming available as a result of the largest 2011 expiry.

See images 1 and 2 on page 12.

PFI 2009 LEASING, TENANT RETENTION AND LEASE RESTRUCTURING

ADDRESS	TENANT	TRANSACTION TYPE
NEW LEASES		
8 Hugo Johnston Drive, Penrose	Argyle Schoolwear*	New tenant
12 Hugo Johnston Drive, Penrose	Bowls NZ Inc*	New tenant
8 Hugo Johnston Drive, Penrose	Kings Transport	New tenant
80 Lunn Avenue, Mount Wellington	Farro Foods	New space leased to existing tenant
80 Lunn Avenue, Mount Wellington	Hair FX	New tenant
80 Lunn Avenue, Mount Wellington	Westpac	New tenant
41c William Pickering Drive, North Harbour	Radn Technology Solutions	New tenant
956 Great South Road, Penrose	Café	New tenant
Peninsula Business Park, Avondale	Café	New tenant
12 Hugo Johnston Drive, Penrose	Ricoh NZ	New tenant
12 Hugo Johnston Drive, Penrose	Hallmark Cards	New tenant
Peninsula Business Park, Avondale	Multiflora NZ	New tenant
Peninsula Business Park, Avondale	NZ Racing Laboratories	New tenant
15 Copsey Place, Avondale	Prestige Services	New tenant
26f William Pickering Drive, North Harbour	Quick Circuit	New tenant
326 Rosebank Road, Avondale	Te Ngahere**	New tenant
76 Carbine Road, Mount Wellington	Atlas Gentech**	New tenant
76 Carbine Road, Mount Wellington	Bunnings NZ	New tenant
956a Great South Road, Penrose	Parcel Express**	New tenant

ADDRESS	TENANT	TRANSACTION TYPE
RETENTIONS – LEASES EXPIRING 2010		
17 Allens Road, East Tamaki	Caroma	Tenant retention
322 Rosedale Road, North Harbour	Caprice Curtains	Tenant retention
102 Mays Road, Penrose	Carter Holt Harvey**	Tenant retention
RETENTIONS – LEASES EXPIRING 2011 AND BEYOND		
17 Allens Road, East Tamaki	W & R Jack	Tenant retention
49 Nesdale Avenue, Manukau	Cardmember Wines**	Tenant retention

A number of these transactions have been disclosed in previous PFI reports as they were secured during the course of the year:
 * Secured in early 2009 and noted in previous annual report.
 ** Secured in early 2010 (post-balance date event).

DIVESTMENTS

Since May 2008, PFI has reduced its gearing through the sales of five properties for a total of \$48.85 million. Three of these sales took place during 2009 and realised a total of \$21.702 million, as follows:

ADDRESS	SALE PRICE	YIELD ON SALE PRICE
7-13 Fisher Crescent, Mount Wellington*	\$6.502 million	8.5%
11 Dalgety Drive, Manukau	\$11.7 million	10.25%***
16-18 Fisher Crescent, Mount Wellington	\$3.5 million	9.7%**

* Sold in February 2009 and noted as a post-balance date event in the previous annual report.
 ** Notional yield as property was sold vacant.
 *** Property sold four months prior to lease expiry with major tenant vacating.

The company's five asset sales reflected an overall market capitalisation rate of 8.68%, and the properties had an average WALT of 3.73 years.

DEVELOPMENTS

PFI's development projects attracted steady tenant interest throughout 2009 and in the early part of 2010. This has culminated in the announcement of a \$7 million project pre-leased to Dunlop Living at Stage 2 of the company's Peninsula Business Park in Avondale.

Stage 2 is currently leased to long-standing tenant Akzo Nobel until mid-2011 and this project deals with two-thirds of that lease expiry, 18 months in advance. Stages 2 and 3 are forecast to return 8.5% on cost, following completion in mid-2011.

Dunlop Living has taken a 13-year lease on the new complex, an 8,620 sqm office/warehouse/manufacturing facility.

As noted in the 2009 interim report, PFI completed two previously-announced office/warehouse developments during the first six months of 2009, for Brewcraft in North Harbour and at Peninsula Business Park for Dorma.

PORTFOLIO REVALUATION

PFI's annual portfolio revaluation as at 31 December 2009 resulted in an unrealised net reduction in portfolio value of \$28.371 million or 7.67% over the 12 months.

As an unrealised reduction, this does not impact the company's contracted revenues or the profit available for distribution to shareholders.

PFI's net tangible assets per share (NTA) reduced from its 31 December 2008 value of \$1.24 per share to \$1.10. The revaluation was carried out by independent registered valuers Colliers International, Jones Lang LaSalle and CB Richard Ellis.

While reductions in value are never desirable, there were some positive aspects. The rate of decline slowed during the year, indicating that industrial property values are stabilising (a 5.65% reduction for the six months to 30 June 2009, with a 2.14% reduction for the second six months).

The valuation reduction can be attributed to a modest softening in capitalisation rates and a decline in market rents of approximately 4%. Overall, the average valuation capitalisation rate of the PFI portfolio stands at 8.74% (2008: 8.55%²).

² 31 December 2008 comparative figure adjusted to exclude the properties sold since this time.

Manager's report

As a further observation on revaluations, after seven consecutive years of gains followed by two years of reductions, the net effect over nine years has been a total increase in portfolio value of \$67.75 million.

INTEREST RATE MANAGEMENT

As at 31 December 2009, PFI had borrowings of \$122 million.

PFI has a self-imposed maximum debt-to-property assets ratio of 35% and at balance date, this ratio was 33.2% (2008: 28.9%). The company's gearing for 2009 averaged 28.7% until late in December 2009, when gearing increased due to the \$22 million acquisition of 7-9 Niall Burgess Road, Mount Wellington (fully funded by bank debt) and the year-end portfolio revaluation.

Interest costs are PFI's largest single expense item and therefore interest rate risk is carefully managed. PFI's interest rate risk management strategy is designed to protect shareholders from large and/or rapid adverse movements in interest rates so as to minimise adverse effects on distributable earnings.

INTEREST RATE HEDGING (INCLUDING FORWARD-DATED SWAPS)

	31 DECEMBER 2009	31 DECEMBER 2008
Average term of swaps	1.81 years	2.5 years
Percentage of debt fixed	64%	83%
Average PFI interest rate (including margin)	6.69%	7.66%
Benchmark (90-day rate)	2.79%	5.11%

PFI conducts interest rate risk management in a risk-averse and non-speculative manner, primarily by entering into interest rate swaps and forward rate agreements within the following policy limits:

- › Borrowings at any point in time will have fixed swap interest rate cover of between 60%-100% depending on debt levels and the interest rate outlook.
- › Swap interest rates are fixed for periods of 12 months to seven years.

Post-balance date, the company considered it prudent to extend the weighted average swap maturity term from 1.81 years to 3.78 years and also take advantage of floating rates at historical lows. The company is aware the Reserve Bank and the market have forecast floating interest rates to increase during 2010, and will take steps to increase the amount of debt on fixed swap interest cover at the appropriate time.

DIVIDEND REINVESTMENT SCHEME

PFI's dividend reinvestment scheme was introduced in 1999 and gives shareholders the opportunity to reinvest their dividends in the company by purchasing additional shares, currently at a discount to market price of 2.5%.

As at PFI's most recent dividend payment in March 2010, 1015 investors or approximately 19.7% of shareholders, holding 15.7% of shares on issue, were participating in the scheme.

Shareholders can join the dividend reinvestment scheme, or alter their participation, at any time. The relevant forms can be downloaded from the Investor Centre section of the PFI website, www.pfi.co.nz, or obtained from PFI's share registrar.

MARKET OVERVIEW

INVESTMENT MARKET

The investment market regained some of its direction in 2009. After a significant fall the previous year, volumes of non-residential sales above \$5 million increased by 50% according to CB Richard Ellis research. This improvement in volumes was reflected in the valuation of PFI's portfolio, with capitalisation rates softening in the first half of the year to 8.91% and then firming over the second half to 8.74%.

continued on page 10

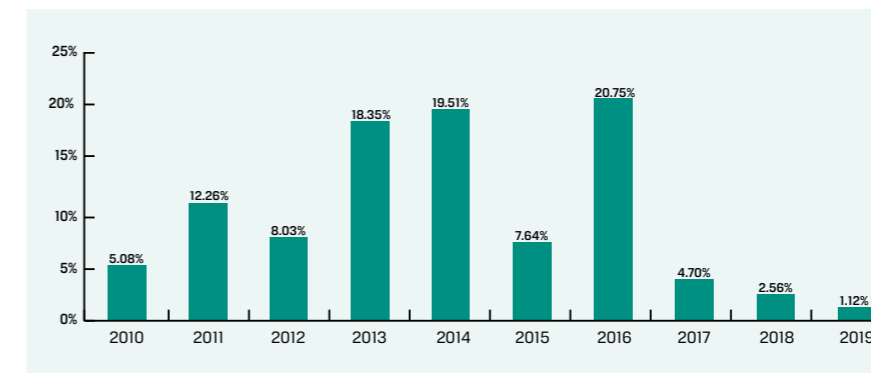
TOP TEN TENANCIES BY RENT ROLL

RANK	TENANT	NO. OF PROPERTIES	ANNUAL RENT	% OF TOTAL
1	Wickliffe	2	\$2,301,353	6.97%
2	DHL	2	\$2,144,000	6.49%
3	Pharmacy Retailing NZ	2	\$1,471,013	4.45%
4	Brambles NZ	2	\$1,376,053	4.17%
5	Steel & Tube	3	\$1,124,890	3.41%
6	Akzo Nobel	1	\$1,119,659	3.39%
7	Cardinal Freight	1	\$1,062,074	3.22%
8	Electrolux Home Products	1	\$1,015,125	3.07%
9	Fletchers	2	\$921,246	2.79%
10	NZ Window Shades	1	\$802,222	2.43%
Subtotal			\$13,337,635	40.38%
PORTFOLIO TOTAL		55	\$33,026,265	

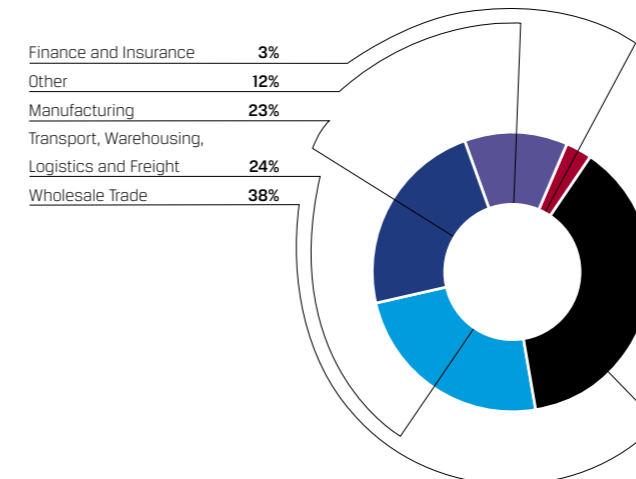
LIQUIDITY - BUILDING VALUE

VALUE RANGE	NO. OF PROPERTIES	VALUE (\$000)	% OF TOTAL
> \$10 million	13	174,250	47.64%
\$5 - 10 million	16	113,789	31.11%
\$2 - 5 million	23	72,880	19.93%
< \$2 million	3	4,820	1.32%
TOTAL	55	365,739	

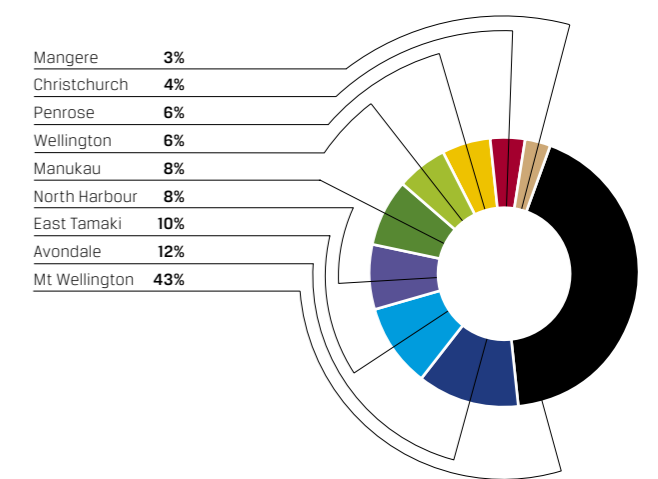
EXPIRY PROFILE BY RENT ROLL



PORTFOLIO RENTAL BY INDUSTRY



PORTFOLIO VALUE BY LOCATION



Manager's report

continued from page 8.

Private investors represented the large majority of purchasers active in the market.

Well-leased, well-located industrial property continued to demonstrate broad appeal to investors and such properties are selling at yields in the 8-9% range. Any perceived risks around lease term and strength of tenant were paramount in purchasing decisions and pricing.

Sale-and-leaseback transactions continue as institutional and corporate investors strengthen their balance sheets, with owner-occupiers also back in the market, particularly in the second half of the year. An owner-occupier was the purchaser of PFI's property at 16-18 Fisher Crescent, Mount Wellington.

LEASING MARKET

Industrial property traditionally remains close to a state of equilibrium, with most construction only beginning once tenant pre-commitment is in place. New building slowed significantly in 2008. Consequently, most of the currently-available supply is existing buildings which have come on to the direct or sub-lease market.

CB Richard Ellis assessed Auckland industrial vacancy at 4.7% at year-end, up from 3.9% in June.

Larger tenancies (3,000 sqm plus) in the market have been slow to lease, although it was encouraging to see some of these taken up in the second half of 2009. For well-located buildings of less than 3,000 sqm, the leasing market has been stronger, as evidenced by the demand and new leases secured in PFI's own portfolio.

Incentives – which currently stand at one to two months rent-free per year of new lease term – are possibly stabilising but sub-lease space offered by occupiers whose space requirements have reduced will act as a dampener on market rental growth in the near-term.

OUTLOOK

Reserve Bank governor Alan Bollard recently noted that the New Zealand economy is recovering broadly as expected and growth is predicted to pick up further through 2010. However, the rate of growth is subdued relative to previous recoveries, with households cautious and business spending weak.

The recession has left a different world in its wake and PFI's approach will continue to be a cautious one.

The past two years have shown that the company has a strong ability to adapt to changing market conditions. This is borne out by the fact that in 2009, the total return from the PFI portfolio exceeded that of other asset classes such as office and retail³, while industrial property (both prime and secondary) is also forecast to outperform over the coming five years⁴.

Over the long term, growth in market rentals for industrial properties has tended to align with GDP growth.

PFI's portfolio of mid-sized properties means the company is well placed to provide options for industrial space occupiers who are expanding or contracting in response to their own business objectives. PFI is currently in contact with prospective tenants with space requirements totalling nearly 54,000 sqm (close to 20% of PFI's portfolio area). Although many of these prospective tenants are also considering other options, their initial contact with PFI is an essential first step on the path towards a new lease, and the company's track record in converting this enquiry into new leases (along with its tenant retention rates) demonstrates that its offering is competitive.

Throughout the past two years, there has been steady interest in PFI's development projects and a rise in business confidence is likely to lead to more projects going ahead once tenant pre-commitment is in place. Further projects with a total cost of \$18.8 million are planned for PFI's under-utilised land in the near term.

The company's sources and cost of debt capital are another area of focus. While some easing in credit markets is currently evident, as in all of its actions, PFI will carefully assess its options, well in advance of the expiry of its existing bank facility in the second half of 2011.



Ross Blackmore
General Manager

³ Property Council of New Zealand/IPD index

⁴ CB Richard Ellis research





Image 1



Image 2



Image 3



Image 4

Image 1: An artist's impression of 76 Carbine Road, Mount Wellington, which is undergoing refurbishment for new tenant Atlas Gentech (see page 6 for details).

Image 2: Impression of the \$7 million office/warehouse/manufacturing facility being developed at Peninsula Business Park, Avondale, for new tenant Dunlop Living (see page 6 for details).

Images 3, 4, main image and previous page: PFI's prime, \$22 million acquisition at 7-9 Niall Burgess Road, Mount Wellington, leased to DHL Supply Chain NZ.



Property for Industry Directors



PETER MASFEN, CHAIRMAN

Peter Masfen joined the PFI Board in May 2002 and was appointed chairman in June 2002. He is chairman of the Masfen Holdings Limited Group of Companies, is a director of and has interests in a number of private companies in New Zealand including Mount Linton Station Limited and Greymouth Petroleum Limited. Peter is also a director of the Auckland Regional Chamber of Commerce and Industry. He is a trustee of King's College, Auckland and King's School, Auckland.

Director since 2002.
Last re-elected May 2006.



ANTHONY BEVERLEY

Anthony Beverley is the Head of Property for AMP Capital Investors (New Zealand) Limited, and has overall responsibility for the New Zealand domestic property operations. Anthony is a director of AMP Haumi Management Limited and several other AMP Capital-related companies. In 2005, Anthony was presented with the Property Institute of New Zealand's Premier Award in recognition of his contribution to the property industry and the wider economy over the course of his career.

Director since 2001.
Last re-elected May 2009.



HUMPHRY ROLLESTON

Humphry Rolleston is a director of and has interests in a number of private companies in New Zealand. He is chairman of ANZCRO Pty Limited and Craiggpine Timber Limited. He is a director of SKY Network Television Limited and Broadway Industries Limited.

Director since 1994.
Last re-elected May 2008.



MICHAEL CASHIN

Michael Cashin joined the PFI board in July 2008. He has previously been chairman of Housing New Zealand Limited and At Work Insurance Limited, and a director of Allied Farmers Limited, Capital Properties New Zealand Limited and Centreport Limited.

His current directorships include Cavotec MSL Limited, Wellington Waterfront Limited and Ryman Healthcare Limited.

Director since 2008.
Last re-elected May 2009.

Company Structure

PFI is a publicly listed company established in 1994 and managed since 1999 by AMP Capital Investors (New Zealand) Limited. The manager reports to the board of directors and is responsible for all property portfolio and company management functions. The board has four directors, three of whom are independent and one representing the manager.

MANAGEMENT STRUCTURE

AMP Capital Investors manages approximately \$11 billion of investment funds for New Zealand investors. AMP Capital Investors' property division manages PFI, AMP NZ Office Trust, and the AMP Capital Property Portfolio, with total property assets of about \$2.5 billion as at 31 December 2009.

PFI is managed by a group of property investment professionals led by general manager Ross Blackmore. The PFI management team has access to the skills of AMP Capital specialists in finance, compliance, treasury, development, research and valuation in New Zealand and overseas.

The current management fee structure was introduced in April 1999. It was designed to align the interests of the manager and shareholders and to reward the manager for outperformance in the growth of shareholder wealth over time. PFI pays a base management fee plus an incentive fee calculated on total shareholder returns. The base fee is calculated at 0.70% up to \$175 million of assets and thereafter at 0.35%. The incentive fee is calculated as 10% of the change in shareholder wealth above 10% and under 15%.

STRATEGY

STRATEGIC OBJECTIVE

PFI's strategic objective is to provide shareholders with a target minimum annual increase in shareholder wealth of 10% through a combination of income and capital growth by way of acquisition and management of industrial property assets.

INVESTMENT STRATEGY

To invest in quality New Zealand industrial property in the main urban centres.

To invest in multi-purpose rather than specialised properties that are occupied by a balanced spread of tenants.

To invest in properties that display above-average income and/or capital appreciation attributes.

Specifically these will include properties that exhibit one or more of the following:

- › Located in land constrained areas
- › Located close to important transport links
- › Located on new or improving arterial routes
- › Possess change of use potential.

To take a financially disciplined approach, with debt currently limited to 35% of total tangible assets.

To provide a risk-averse approach to acquisition, asset management and capital management consistent with delivering the target increase in shareholder wealth and distributing 100% of net cash operating earnings as dividends.

Portfolio Summary

ADDRESS	TENANT	TOTAL CONTRACT RENT	2009 VALUATION \$000	CURRENT YIELD ON VALUATION	VALUE PER SQM (EX CANOPY)	2009 COST PLUS ADDITIONS \$000	2009 YIELD ON COST	WAREHOUSE	OFFICE	CANOPY	AREAS (SQM)				SITE AREA	SITE COVERAGE
											OTHER	RENTABLE YARD	RENTABLE BUILDING AREA (EX CANOPY)			
Avondale																
686 Rosebank Road	Akzo Nobel/Roadshow Entertainment/USL	\$2,083,622	\$19,800	10.52%	\$1,169	\$19,227	11.31%	12,118	3,692	1,757	154		15,964	39,473	43%	
320 & 326 Rosebank Road	Doyle Sails NZ	\$585,000	\$7,209	8.11%	\$1,147	\$5,103	11.46%	5,524	733	340	29		6,286	11,146	56%	
15 Copsey Place	Postie Plus	\$643,788	\$6,100	10.55%	\$792	\$5,281	12.19%	5,571	2,116	12	13		7,700	10,462	74%	
61 - 69 Patiki Road	Gunnensen/TMA Group/Various	\$1,113,923	\$12,200	9.13%	\$1,317	\$12,813	7.99%	7,221	1,587	434	453		9,261	19,595	47%	
North Harbour																
322 Rosedale Road	Parkland Products/Brewcraft/Various	\$867,899	\$10,100	8.59%	\$1,367	\$8,920	9.73%	5,796	1,591	312		79	7,387	13,700	54%	
4 Rothwell Avenue	Clariant New Zealand	\$425,000	\$4,600	9.24%	\$1,283	\$3,622	11.73%	2,320	1,208	0	56		3,585	6,114	59%	
41 William Pickering Drive	Meridian/Radn Technology Solutions	\$418,385	\$4,860	8.61%	\$1,608	\$3,215	13.01%	2,324	699	9			3,023	5,923	51%	
19 Omega Street	NZAA/Vero/Just Switchboards	\$234,705	\$2,550	9.20%	\$2,003	\$1,880	12.48%	755	518	0			1,273	2,764	46%	
29 Omega Street	Club Physical	\$304,501	\$3,350	9.09%	\$2,233	\$3,818	7.98%	500	1,000	0		2,499	1,500	4,687	32%	
26 William Pickering Drive*	Vacant		\$1,400	0.00%	\$1,113	\$1,365	0.00%	957	301	0			1,258	1,448	87%	
47 Arrenway Drive	Onyx Group	\$219,800	\$2,600	8.45%	\$2,235	\$3,163	6.95%	651	512	82			1,163	1,801	65%	
Penrose																
8 Hugo Johnston Drive	Argyle Schoolwear/Kings Transport/Various	\$452,102	\$6,590	6.86%	\$1,534	\$6,786	6.66%	2,246	1,859	0	191	63	4,296	7,517	57%	
12 Hugo Johnston Drive	Bowls NZ/Hallmark Cards/Ricoh	\$299,094	\$3,210	9.32%	\$1,240	\$2,834	10.55%	1,813	776	48			2,589	3,899	66%	
417a Church Street	Modempak/Bosch Security	\$305,746	\$3,100	9.86%	\$1,183	\$2,301	13.29%	1,794	825	0			2,619	3,866	68%	
956 Great Sth Road	Eureka Tiles/Austral Bricks/Various	\$266,000	\$3,310	8.04%	\$1,535	\$3,440	7.73%	1,229	198	74	729		2,157	4,860	44%	
956a Great Sth Road	Parcel Express	\$175,000	\$2,490	7.03%	\$916	\$2,000	8.75%	2,453	264	32			2,717	6,119	44%	
102 Mays Road	Carter Holt Harvey	\$393,250	\$3,650	10.77%	\$893	\$3,943	9.97%	3,648	440	0		3,500	4,089	11,375	36%	
Mt Wellington																
54 Carbine & 6a Donnor	Pharmacy Retailing NZ/Mondiale Freight Services	\$1,186,504	\$13,900	8.54%	\$1,053	\$10,752	11.04%	11,407	1,796	1,034			13,202	29,853	44%	
50 Carbine Road	Atlas Copco	\$190,000	\$2,280	8.33%	\$2,557	\$1,335	14.23%	508	317	0	67	1,700	892	3,435	26%	
7 - 9 Niall Burgess Road	DHL Supply Chain NZ	\$1,874,000	\$22,000	8.52%	\$1,312	\$22,065	8.49%	14,918	1,467	3,057	388	3,735	16,773	29,712	56%	
7 Carmont Place	Packsys/CMI Springs	\$535,000	\$6,300	8.49%	\$1,232	\$4,728	11.32%	4,261	855	292			5,115	15,344	33%	
509 Mt Wellington Highway	Fletchers/Tileco/Various	\$985,885	\$11,200	8.80%	\$2,169	\$6,544	15.07%	4,099	49	200	1,016	2,378	5,164	14,548	35%	
6 Donnor Place	Wickliffe	\$1,770,765	\$14,700	12.05%	\$1,218	\$12,486	14.18%	9,421	1,979	1,005	674	3,000	12,074	27,159	44%	
4 - 6 Mt Richmond Road	Brambles New Zealand	\$771,053	\$9,500	8.12%	\$1,238	\$7,209	10.70%	6,541	748	273	385		7,674	14,761	52%	
5 Vestey Drive	PPG	\$205,000	\$2,400	8.54%	\$1,891	\$1,684	12.17%	705	564	0			1,269	2,357	54%	
9 Vestey Drive	Hiab	\$193,813	\$2,315	8.37%	\$1,449	\$1,688	11.48%	1,193	404	0			1,598	2,730	59%	
11 Vestey Drive	ASB Bank	\$450,000	\$5,450	8.26%	\$1,529	\$3,636	12.38%	2,815	379	61	371		3,564	5,760	62%	
15a Vestey Drive	Various	\$513,318	\$5,750	8.93%	\$1,789	\$4,054	12.66%	1,488	1,726	35			3,214	6,270	51%	
1 Niall Burgess Road	Barewood Apparel	\$210,000	\$2,230	9.42%	\$1,360	\$1,891	11.11%	1,251	388	0			1,639	3,938	42%	
3 - 5 Niall Burgess Road	Electrolux Home Products	\$1,015,125	\$12,200	8.32%	\$1,390	\$8,612	11.79%	7,058	1,718	597		386	8,776	18,679	47%	
10 Niall Burgess Road	On Site Broadcasting	\$230,500	\$2,700	8.54%	\$1,602	\$1,924	11.98%	1,275	410	40			1,685	3,254	52%	
523 Mt Wellington Highway	Steel & Tube	\$213,740	\$2,500	8.55%	\$1,491	\$1,794	11.91%	1,365	311	0			1,677	4,000	42%	
7 Vestey Drive	Wickliffe	\$530,588	\$5,800	9.15%	\$1,313	\$4,010	13.23%	3,718	698	181			4,417	7,704	57%	
2 - 6 Niall Burgess Road	NZ Window Shades	\$802,222	\$8,700	9.22%	\$1,323	\$6,127	13.09%	5,519	993	212	65		6,576	10,537	62%	
511 Mt Wellington Highway	Vero Insurance	\$473,500	\$5,600	8.46%	\$1,765	\$4,097	11.56%	1,240	1,042	179	891		3,173	4,762	67%	
80 Lunn Avenue	Farro Fresh/Ideal Electrical/Various	\$848,707	\$10,400	8.16%	\$3,472	\$8,514	9.97%	341		13	2,655		2,996	7,715	39%	
515 Mt Wellington Highway	Stryker	\$253,490	\$3,050	8.31%	\$1,786	\$3,023	8.39%	1,052	656	0			1,708	3,709	46%	
174b Marua Road	Waste Management	\$124,440	\$1,700	7.32%	\$1,813	\$2,364	5.26%	938		0		2,807	938	4,753	20%	
76 Carbine Road	Bunnings	\$355,025	\$3,500	10.14%	\$1,381	\$4,686	7.58%	1,869	666	60		2,300	2,535	6,801	37%	
36 Vestey Drive	Fox Air	\$147,336	\$1,720	8.57%	\$1,552	\$2,032	7.25%	773	297	12	38		1,108	2,356	47%	

*Subsequently leased to Quick Circuit for a six-year term commencing 1 February 2010 at an annual rental of \$120,000.

Portfolio Summary

ADDRESS	TENANT					2009 COST PLUS ADDITIONS \$000	2009 YIELD ON COST	WAREHOUSE	OFFICE	CANOPY	AREAS (SQM)			SITE AREA	SITE COVERAGE
											OTHER	RENTABLE YARD	RENTABLE BUILDING AREA (EX CANOPY)		
Manukau															
8 Cavendish Drive	Big Save/Various	\$748,657	\$7,780	9.62%	\$1,999	\$7,042	10.63%	303	154	516	3,436	580	3,893	11,550	34%
212 Cavendish Drive	Cardmember/JD Lyons	\$1,208,624	\$14,600	8.28%	\$1,159	\$8,181	14.77%	12,121	438	1,099	43	1,820	12,602	41,850	30%
55 Nesdale Avenue	Chep	\$605,000	\$6,700	9.03%	\$2,527	\$4,732	12.79%	1,650	1,001	295		11,236	2,651	16,878	16%
Mangere															
58 Richard Pearse Drive	Pharmacy Retailing NZ	\$971,013	\$11,000	8.83%	\$1,170	\$8,774	11.07%	8,505	899	1,154			9,404	17,645	53%
East Tamaki															
18 Cryers Road	Steel & Tube	\$680,000	\$7,500	9.07%	\$1,015	\$5,111	13.30%	6,016	1,374	489		2,831	7,389	15,110	49%
8 Stonedon Avenue	Steel & Tube	\$231,150	\$2,550	9.06%	\$879	\$1,652	13.99%	2,902		0		1,000	2,902	6,727	43%
1 Ron Driver Place	LFA	\$346,220	\$3,700	9.36%	\$1,007	\$2,463	14.06%	2,746	611	181	316		3,673	6,896	53%
62 Neales Road	Cardinal Freight	\$1,062,074	\$11,450	9.28%	\$1,056	\$9,004	11.80%	10,243	591	1,703	9		10,842	19,702	55%
17 Allens Road	Caroma/W & R Jack/Various	\$995,933	\$10,700	9.31%	\$1,123	\$8,301	12.00%	8,111	1,257	394	164	38	9,532	21,486	44%
Wellington															
11 Barnes Street	Colgate Palmolive	\$658,000	\$6,320	10.41%	\$1,074	\$3,540	18.59%	5,596	291	2,678		4,000	5,887	24,339	24%
48 Seaview Road	Goughs/Bridgestone/Various	\$378,831	\$4,480	8.46%	\$2,598	\$4,578	8.28%	1,176	474	294	74	5,368	1,724	14,259	12%
8 McCormack Place	Iron Mountain	\$734,162	\$8,490	8.65%	\$1,548	\$7,984	9.20%	5,073	412	200		688	5,485	8,338	66%
50 Parkside Road	All Brite/Various	\$517,123	\$4,380	11.81%	\$894	\$4,880	10.60%	4,481	418	72		4,266	4,899	10,540	46%
Christchurch															
127 Waterloo Road	Exel	\$270,000	\$3,075	8.78%	\$1,031	\$1,855	14.56%	2,746	235	0		537	2,982	6,500	46%
44 Mandeville Street	PlaceMakers/Windflow Technology/Various	\$951,653	\$10,000	9.52%	\$1,110	\$8,505	11.19%	6,598	1,599	464	815	1,854	9,012	22,357	40%
TOTAL		\$33,026,265	\$365,739	9.03%	\$1,313	\$301,568	10.95%	218,941	45,538	19,887	13,032	56,665	277,511	629,063	44%

Five Year Performance Summary

ALL IN \$000	NZ IFRS	NZ IFRS	NZ IFRS	PREVIOUS NZ GAAP	PREVIOUS NZ GAAP
	2009	2008	2007	2006	2005
Rental income	31,428	32,470	30,859	29,142	26,360
Net distributable profit attributable to shareholders	15,920	15,699	14,905	14,063	13,516
Profit after tax before unrealised valuations ^(a)	14,712	20,571	15,246	13,251	13,516
Unrealised revaluations ^(a)	(27,226)	(52,483)	29,204	34,219	39,933
Adjusted net surplus ^(b)	(11,957)	(31,912)	44,200	47,379	53,449
Net debt	123,076	111,467	127,300	108,000	94,465
Investment property	363,091	379,508	436,675	390,646	333,363
Shareholders' funds (diluted) ^(c)	231,792	257,344	302,202	269,959	235,722
Gross debt to total property	33.20%	28.91%	28.72%	27.99%	28.50%
Gross interest cover	3.50X	3.20X	3.39X	3.58X	4.00X
Management expense ratio (MER)	0.59%	0.69%	0.84%	0.81%	0.85%
Pre tax return on shareholders' funds after valuations ^{(b)(d)}	(3.44%)	(8.31%)	15.45%	20.15%	26.16%
Weighted average cost of capital ^(e)	8.08%	8.21%	7.77%	7.13%	7.55%
Shareholder total gross returns	16.03%	(16.55%)	6.41%	30.34%	21.11%
Annual gross dividend yield on average share price	7.93%	7.44%	6.09%	6.72%	7.65%
Gross dividend per share	9.07	8.83	8.82	8.77	8.37
Net dividend per share	7.18	7.18	7.10	6.76	6.56
Net tangible assets cents per share (diluted) ^(c)	108.04	121.15	143.56	129.44	114.02
Net tangible assets cents per share (undiluted)	110.46	123.57	146.00	131.60	116.18
Basic earnings per share before revaluations ^{(a)(b)(e)(f)}	7.15	9.73	7.16	6.34	6.59
Basic earnings per share after revaluations ^{(a)(b)(e)(f)}	(5.60)	(15.09)	21.09	22.82	26.05
Number of properties owned	55	57	59	57	54
Portfolio income yield on valuation	8.8%	8.6%	7.6%	7.8%	8.3%
Average unexpired lease term (years)	4.5	4.7	5.2	5.4	5.3
Portfolio occupancy	99%	99%	100%	100%	98%
Closing shares on issue	214,543,507	212,434,449	210,508,187	208,567,101	206,731,464
Average shares	213,455,574	211,467,583	209,575,156	207,608,441	205,205,182
Number of shareholders	5,152	5,247	5,521	5,811	5,982
Gross shareholder returns since listing (annualised)	8.91%	8.42%	10.88%	12.94%	10.67%

(a) Unrealised valuations includes changes in values of properties and derivative financial instruments and excludes gain/(loss) on vendor finance receivable.

(b) Excludes gain/(loss) on sale.

(c) Diluted for final dividend.

(d) After unrealised changes in value of properties.

(e) Calculated on weighted average shares for the year.

(f) Includes taxes.

Financials

CALENDAR

February 2010	2009 Full-year financial result announced
March 2010	2009 Final dividend payment
	2009 Annual report released
April 2010	2010 First-quarter result announced
May 2010	2010 First-quarter dividend paid
	Annual general meeting
July 2010	2010 Half-year result announced
August 2010	2010 Half-year dividend paid
September 2010	2010 Interim report released
October 2010	2010 Third-quarter dividend paid
February 2011	2010 Full-year financial result announced

Statement of Comprehensive Income

For the year ended 31 December 2009

ALL IN \$000	NOTE	GROUP		PARENT	
		2009	2008	2009	2008
Revenue					
Rent	4	31,428	32,470	-	-
Management fee income	5	-	-	1,906	2,268
Other (loss on disposal of investment property)		(557)	-	-	-
Total revenue		30,871	32,470	1,906	2,268
Other Income (dividend)	5	-	-	75,000	-
Less:					
Property operating expenditure	4	1,149	1,147	614	467
Gross profit		29,722	31,323	76,292	1,801
Expenditure					
Audit fees		49	69	49	69
Other fees paid to auditors for agreed upon procedures engagements		16	24	16	24
Directors fees	5	180	265	180	265
Management fees - base fee	5	1,906	2,268	1,906	2,268
Other expenditure	6	670	567	527	428
Total indirect expenses before interest		2,821	3,193	2,678	3,054
Operating profit/(loss) before interest, fair value changes and taxation		26,901	28,130	73,614	(1,253)
Borrowing costs					
Imputed interest income on vendor finance receivable held at amortised cost		181	-	-	-
Interest received		64	101	64	101
Finance cost		(7,916)	(8,786)	(8,243)	(8,504)
Net borrowing costs		(7,671)	(8,685)	(8,179)	(8,403)
Non operating income and expenses					
Unrealised fair value loss - vendor finance receivable		(349)	-	-	-
Unrealised net change in value of investment properties	7	(28,371)	(43,128)	-	-
Unrealised revaluation gain/(loss) - derivative financial instruments		1,145	(9,355)	1,145	(9,355)
Total non operating income and expenses		(27,575)	(52,483)	1,145	(9,355)
Operating income/(loss) for the year before taxation		(8,345)	(33,038)	66,580	(19,011)
Tax benefit/(expense)					
Current taxation		(3,689)	(3,746)	2,818	2,897
Deferred taxation		(480)	4,872	240	2,850
Total tax benefit/(expense)	8	(4,169)	1,126	3,058	5,747
Profit/(loss) for the year		(12,514)	(31,912)	69,638	(13,264)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss) for the year attributable to the shareholders of the Company		(12,514)	(31,912)	69,638	(13,264)
Basic and diluted loss - cents per share	9	(5.86)	(15.09)		

The accompanying notes form part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2009

	NOTE	GROUP			PARENT		
		SHARE CAPITAL	RETAINED EARNINGS	TOTAL	SHARE CAPITAL	RETAINED EARNINGS	TOTAL
Balance at 1 January 2008		160,309	147,029	307,338	160,309	(131,532)	28,777
Loss for the year		-	(31,912)	(31,912)	-	(13,264)	(13,264)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive loss for the year ended 31 December 2008		-	(31,912)	(31,912)	-	(13,264)	(13,264)
Share issues/dividend reinvestment	20	2,217	-	2,217	2,217	-	2,217
Dividends	10	-	(15,148)	(15,148)	-	(15,148)	(15,148)
		2,217	(15,148)	(12,931)	2,217	(15,148)	(12,931)
Balance at 31 December 2008	20, 21	162,526	99,969	262,495	162,526	(159,944)	2,582
Balance at 1 January 2009		162,526	99,969	262,495	162,526	(159,944)	2,582
Profit/(loss) for the year		-	(12,514)	(12,514)	-	69,638	69,638
Other comprehensive income		-	-	-	-	-	-
Total comprehensive profit/(loss) for the year ended 31 December 2009		-	(12,514)	(12,514)	-	69,638	69,638
Share issues/dividend reinvestment	20	2,310	-	2,310	2,310	-	2,310
Dividends	10	-	(15,296)	(15,296)	-	(15,296)	(15,296)
		2,310	(15,296)	(12,986)	2,310	(15,296)	(12,986)
Balance at 31 December 2009	20, 21	164,836	72,159	236,995	164,836	(105,602)	59,234

The accompanying notes form part of these financial statements

Statement of Financial Position

As at 31 December 2009

ALL IN \$000	NOTE	GROUP		PARENT	
		2009	2008	2009	2008
Current assets					
Cash and cash equivalents	12	-	533	-	533
Vendor finance receivable	13	4,529	-	-	-
Accounts receivable	14	285	377	2	131
Prepayments and other current assets	15	2,894	2,122	437	395
Investment properties held for resale	7	-	21,862	-	-
Loans to subsidiaries	16	-	-	186,461	118,674
Total current assets		7,708	24,894	186,900	119,733
Non-current assets					
Investment properties	7	363,266	361,172	-	-
Shares in subsidiaries	16	-	-	1,750	1,750
Total non-current assets		363,266	361,172	1,750	1,750
Total assets		370,974	386,066	188,650	121,483
Current liabilities					
Bank overdraft	12	1,076	-	1,076	-
Accounts payable and accruals	17	2,250	2,967	2,101	3,276
Taxation payable		976	384	618	-
Goods and services tax		205	83	205	83
Derivative financial instruments	18	3,979	5,124	3,979	5,124
Total current liabilities		8,486	8,558	7,979	8,483
Non current liabilities					
Deferred taxation	8	3,493	3,013	(563)	(1,582)
Borrowings	19	122,000	112,000	122,000	112,000
Total non-current liabilities		125,493	115,013	121,437	110,418
Owners' equity					
Share capital	20	164,836	162,526	164,836	162,526
Retained earnings	21	72,159	99,969	(105,602)	(159,944)
Total equity		236,995	262,495	59,234	2,582
Total liabilities and equity		370,974	386,066	188,650	121,483

The accompanying notes form part of these financial statements

On behalf of the Board.



Peter Masfen
Director, 12 March 2010



Anthony Beverley
Director, 12 March 2010

Cash Flow Statement

For the year ended 31 December 2009

ALL IN \$000	NOTE	GROUP		PARENT	
		2009	2008	2009	2008
Cash flows from operating activities					
Cash was provided from:					
Cash receipts from customers		32,108	33,555	1,992	4,064
Goods and services tax received		122	45	122	45
Interest received		64	101	64	101
Subtotal		32,294	33,701	2,178	4,210
Cash was applied to:					
Cash paid to suppliers		(5,241)	(5,965)	(4,425)	(2,908)
Interest on loans paid		(7,916)	(8,786)	(8,243)	(8,504)
Income tax paid		(3,059)	(2,780)	2,201	2,094
Subtotal		(16,216)	(17,531)	(10,467)	(9,318)
Net cash from/(used in) operating activities	22	16,078	16,170	(8,289)	(5,108)
Cash flows from investing activities					
Cash was provided from:					
Sale of investment properties		16,940	27,150	-	-
Subtotal		16,940	27,150	-	-
Cash was applied to:					
Purchase and development of investment properties		31,431	14,144	-	-
Loans to subsidiaries		-	-	9,666	33,872
Capitalisation of interest for development properties		210	412	-	-
Subtotal		31,641	14,556	9,666	33,872
Net cash inflows/(outflows) from investing activities		(14,701)	12,594	9,666	33,872
Cash flows from financing activities					
Cash was provided from:					
Contributions from shareholders		2,310	2,217	2,310	2,217
Draw down of term loans		10,000	-	10,000	-
Subtotal		12,310	2,217	12,310	2,217
Cash was applied to:					
Dividends paid	10	(15,296)	(15,148)	(15,296)	(15,148)
Repayment of term loans		-	(14,000)	-	(14,000)
Subtotal		(15,296)	(29,148)	(15,296)	(29,148)
Net cash inflows/(outflows) from financing activities		(2,986)	(26,931)	(2,986)	(26,931)
Net increase/(decrease) in cash held		(1,609)	1,833	(1,609)	1,833
Opening cash brought forward		533	(1,300)	533	(1,300)
Cash at the end of the year		(1,076)	533	(1,076)	533
Cash balances in the Statement of Financial Position					
Cash balances comprise the following:					
Cash at bank	12	-	533	-	533
Bank overdraft	12	(1,076)	-	(1,076)	-
Total cash at bank and bank overdrafts		(1,076)	533	(1,076)	533

The accompanying notes form part of these financial statements

Notes to and Forming Part of the Financial Statements

for the year ended 31 December 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The financial statements are those of Property For Industry Limited (the 'Company').

The Company is incorporated in New Zealand and is registered under the New Zealand Companies Act 1993.

The registered office of the Company is Ground Floor, PWC Tower, 113-119 The Terrace, Wellington.

The Company is listed on the New Zealand Stock Exchange.

The Company is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements are prepared in accordance with the Financial Reporting Act 1993.

The Company's principal activity is property investment and management. The Company is a profit-oriented entity.

The Group financial statements are those of the Company and its subsidiaries as at and for the year ended 31 December 2009.

The subsidiaries apply the same accounting policies as the Group.

(a) Measurement basis

The financial statements have been prepared on the historical cost basis except for the following:

- Investment property is measured at fair value.
- Certain Financial Instruments which are measured at fair value.

(b) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with International Financial Reporting Standards ('IFRS') and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

Financial statements have been prepared using the New Zealand Dollar functional and presentation currency.

Financial statements have been rounded to the nearest thousand dollars (\$000).

The new standards, amendments to published standards and interpretations that are mandatory for the Group's financial periods beginning on or after 1 January 2010 or later periods, but which the Group has not early adopted, are as follows:

1. NZ IAS 27 Consolidated and Separate Financial Statements (Revised standard) (effective for accounting periods beginning on or after 1 July 2009);
2. NZ IAS 39 Amendments to IAS 39 Financial Instruments and IFRS 4 Financial Guarantee Contracts and Credit Insurance (effective for accounting periods beginning on or after 1 July 2009);
3. NZ IFRS 3 Business Combinations (effective for accounting periods beginning on or after 1 July 2009);
4. NZ IFRIC 17 Distribution of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009); and
5. NZ IFRIC 18 Transfer of Assets from Customers (effective for accounting periods beginning on or after 1 July 2009).

New standards adopted for the period beginning 1 January 2009:

1. NZ IAS 1 where the Group has elected to present all non owner changes in equity in a single Statement of Comprehensive Income and owner changes in equity in the Statement of Changes in Equity.
2. The Group has adopted NZ IFRS 8 which is mandatory for the first time for the financial period beginning 1 January 2009.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors that makes strategic decisions.

(c) Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. If subsidiaries are acquired during the year, their results are included in the consolidated financial statements from the date of acquisition. If subsidiaries are disposed of, they are accounted for up to disposal date.

Inter-company accounts and transactions are eliminated on consolidation.

Investments in subsidiaries in the Company's separate financial statements are carried at cost, less impairment losses.

The Group financial statements include the financial statements of the Company and its wholly owned subsidiaries, P.F.I. Property No. 1 Limited, P.F.I. Property No. 2 Limited, P.F.I. Property No. 3 Limited, P.F.I. Property No. 4 Limited, P.F.I. Property No. 5 Limited and PFI Property No. 6 Limited. The purchase method of consolidation has been adopted.

(d) Investment properties

Investment property is property held to earn rental income now or in the future, but not for sale in the ordinary course of business or for use in the production or supply of goods and services, or for administrative purposes.

Initially, investment properties are valued at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the Statement of Comprehensive Income in the year in which they arise.

Investment properties are revalued annually on the basis of the current market valuation made by independent registered public valuers.

The value of capitalised leasing costs is deducted from the valuation to ensure that investment properties and associated leasing costs are recorded at fair value. Where the Directors consider that the independent valuation does not give a true and fair view then adjustments will be made and fully disclosed.

For the years ended 31 December 2009 and 2008 no material adjustments were made.

No depreciation or amortisation is provided for on investment properties. For tax purposes depreciation is claimed and a deferred tax liability is recognised.

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

(e) Capital work in progress

Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction.

In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the following factors, among others:

- The provisions of the construction contract.
- The stage of completion.
- Whether the project/property is standard (typical for the market) or non-standard.
- The level of reliability of cash inflows after completion.
- The development risk specific to the property.
- Past experience with similar constructions.
- Status of construction permits.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of the current market conditions. The fair value also reflects, on a similar basis, the cash outflows that could be expected in respect of the property. Some of these outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Following the adoption of NZ IAS 40 (revised), investment properties under construction have been transferred from property, plant and equipment to investment properties at 1 January 2009 at their carrying amount. They have subsequently been fair valued at the reporting date.

All fair value gains and losses (if the losses have not already been recognised through impairment) that arose prior to 1 January 2009, have been recognised in the Statement of Comprehensive Income for the year as fair value gains or losses.

(f) Leasing costs

Leasing costs in relation to letting of property, where material, are recognised as prepaid expenses and amortised on a straight line basis over the lease years to which they relate.

(g) Revenue recognition

Rental income from investment property is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(h) Management fee income

Management fee income is recognised in the Statement of Comprehensive Income in the period in which the services are rendered.

(i) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income for the year, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is recognised for the following temporary differences:

- The tax liability arising from the depreciation claimed on investment properties.
- The tax asset/liability arising from the revaluation of investment properties.
- The tax asset/liability arising from the unrealised gains/losses on the revaluation of interest rate swaps.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities, but they intend to settle current tax assets and liabilities on a net basis.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(j) Goods and services tax

The financial statements have been prepared on a goods and services tax exclusive basis except for accounts payable and receivable which are stated inclusive of GST where invoiced.

(k) Accounts receivable

Receivables are recognised and carried initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

An allowance for impaired receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

(l) Cash and cash equivalents

Cash and cash equivalents include cash at bank and short term money market investments which are readily convertible to cash.

Only items that have an original maturity of three months or less are classified as cash and cash equivalents.

(m) Financial instruments

Non-derivative financial instruments:

- i) Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables and secured bank loans.
- ii) Non-derivative financial assets are classified as loans and receivables.
- iii) Non-derivative financial liabilities are classified as other financial liabilities at amortised cost. These financial instruments are initially measured at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums are spread over the expected life of the instrument.
- iv) Financial assets are recognised net of impairment losses, which are recognised immediately in the Statement of Comprehensive Income. The Group assesses at each balance date whether there is objective evidence that a financial asset or a group of financial assets are impaired. Financial assets with objective evidence of impairment are tested for impairment by comparing the carrying value to the recoverable amount. The recoverable amount is calculated as the present value of the estimated future cash flows, discounted at the original effective interest rate.

Derivative financial instruments:

- i) The Group is exposed to changes in interest rates and uses interest rate derivatives to mitigate these risks.
- ii) Such derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value each balance date. Transaction costs are expensed on initial recognition and recognised in the Statement of Comprehensive Income. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. The fair value of derivative financial instruments was based on valuations prepared by the counterparty, based on prevailing interest rates.
- iii) The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at balance date, taking into account current interest rates and creditworthiness of the swap counterparties.

(n) Interest bearing liabilities

Interest bearing liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the liability on an effective interest basis.

Borrowing costs are recognised as an expense when incurred, except where they are in relation to qualifying assets as defined in NZ IAS 23 and then are included in the cost of properties under development. Where borrowing costs are specific to a particular property under development, the rate at which borrowing costs are capitalised is determined by reference to the actual borrowing costs incurred. Borrowing costs capitalised this year were \$210,000 at a rate of 7.51% (2008: \$412,000 at a rate of 7.63%).

(o) Derecognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(p) Impairment – non financial assets

Assets other than investment properties and deferred tax assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal is recognised in the Statement of Comprehensive Income.

(q) Impairment – financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the Statement of Comprehensive Income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. This reversal is recognised in the Statement of Comprehensive Income.

(r) Cash Flow Statement

The following is the definition of terms used in the Cash Flow Statement.

- i) Cash means coins, notes, demand deposits and other highly liquid investments in which the Company has invested as part of its day to day cash management. Cash includes current liabilities such as negative cash balances in the form of overnight bank overdrafts. Cash does not include receivables or payables or any borrowing that forms part of a term facility.
- ii) Investing activities include those relating to the addition, acquisition and disposal of investment properties and any addition or reduction of subsidiary investments and loans.
- iii) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Company. Dividends paid in relation to the capital structure are included in financing activities.
- iv) Operating activities include all transactions and other events that are neither investing or financing activities.

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's and Company's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group and Company.

All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions made by management. The significant judgements, estimates and assumptions made in the preparation of these financial statements are outlined below:

Investment properties (also refer Note 7)

Management have used independent registered valuers estimates to determine fair value.

For these properties with a carrying amount of \$363,266,000 (2008: \$383,034,000), the valuation was determined by reference to both the direct capitalisation and discounted cash flow approaches.

Using a direct capitalisation approach the subject property rental is divided by a market derived capitalisation rate to assess the market value of the asset. Further adjustments are then made to the market value to reflect 'under/over renting', additional revenue on improvements and required capital expenditure. Capitalisation rates range from 7.03% to 12.05% (excluding vacant property) across the portfolio.

Discounted cash flow projections are based on estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current (at the date of the statement of financial position) market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Independent registered valuers took into account occupancy* on individual properties (portfolio average is 99.5%), average lease term (weighted average lease term for the portfolio is 4.52 years) and discount rates (range from 9.0% to 10.25%).

*Leased floor area as a proportion of total floor area

Deferred taxes

Deferred tax on changes in fair value of property investments: Deferred tax is provided on the building component of the fair value change to property investments, being the taxable temporary difference. Investment properties are valued each year by independent valuers (as outlined in Note 7). These values include an allocation of the valuation between the land and building components. The calculation of deferred tax on the building component places reliance on the split provided by the valuers.

Deferred tax on depreciation: Deferred tax is provided in respect of depreciation claimed.

Derivative financial instruments

Derivative financial instruments are represented at valuation prepared by the counterparty, which is based on a calculation of the present value of estimated future cash flows based on the applicable market interest yield rates at balance date.

The interest rates used in performing the valuations range from 2.738% to 2.805%.

3. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Group's activities expose it to a variety of financial risks: market risk (such as interest rate risk) and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to moderate certain risk exposures.

The Group's principal financial instruments comprise bank loans.

The main purpose of these financial instruments is to raise finance for the Group.

The Group also enters into derivative transactions, principally interest rate swaps. The purpose of entering into derivative transactions is to manage the interest rate risk arising from the Group's operations and its sources of finance.

The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks as summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Interest risk

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group enters into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations.

As the Group holds interest rate swaps there is a risk that their economic value will fluctuate because of changes in market interest rates.

The value of interest rate swaps is disclosed in Note 18 and it is acknowledged that this risk is a by-product of the Group's attempt to manage its cash flow interest rate risk.

The sensitivity analysis following has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the year end. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the year end was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

	12 MONTHS 2009	GAIN/(LOSS) ON INCREASE OF	GAIN/(LOSS) ON DECREASE OF	12 MONTHS 2008	GAIN/(LOSS) ON INCREASE OF	GAIN/(LOSS) ON DECREASE OF
GROUP AND PARENT	\$000	+0.5%	-0.5%	\$000	+0.5%	-0.5%
Financial Assets						
Cash and cash equivalents	-	-	-	533	-	-
Vendor finance receivable	4,529	-	-	-	-	-
Accounts receivable	285	-	-	377	-	-
Total	4,814	-	-	910	-	-
Financial Liabilities						
Bank overdraft	1,076	(5)	5	-	-	-
Derivative financial instruments at fair value through the Statement of Comprehensive Income	3,979	553	(553)	5,124	921	(921)
Accounts payable and accruals	2,250	-	-	2,967	-	-
Term loans	122,000	(610)	610	112,000	(560)	560
Total	129,305	(62)	62	120,091	361	(361)

Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, accounts receivable, loans to subsidiaries, call accounts and interest rate swap agreements. There is limited credit risk for the Group because most of the Group's cash and investments are deposits with Bank of New Zealand which is a registered bank in New Zealand and is rated by Standard & Poors AA/Stable/A-1+.

With respect to credit risk arising from the financial assets of the Group, its exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the table below.

The Group only enters into lease agreements with recognised, creditworthy third parties. It is the Group's policy that all tenants are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. As the Group has a wide spread of tenants over many industry sectors it is not exposed to any significant concentration of credit risk.

Amounts which are past due are not considered impaired as the majority are due from tenants with strong credit ratings.

Sensitivity analysis of credit risk is based on the possibility that if 10% of total accounts receivable were impaired, it would have an adverse impact on current year earnings of approximately \$29,000 (2008: \$38,000). Management do not consider this exposure to have a material impact on the financial position of the Group.

A credit risk also arises in the Parent company from loans to subsidiaries. These amounts are not interest bearing, and have no fixed repayment terms.

	GROUP 31/12/09	PARENT 31/12/09	GROUP 31/12/08	PARENT 31/12/08
ALL IN \$000				
Accounts Receivable				
Carrying amount	285	2	377	131
Not impaired on the reporting date and past due:				
less than 30 days	198	2	272	26
between 31 days and 60 days	95	-	6	6
between 61 days and 90 days	(8)	-	51	51
between 91 days and 360 days	-	-	42	42
over 360 days	-	-	6	6

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

Liquidity Risk

Liquidity risk is the risk that the Group will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period as at 31 December 2009:

	GROUP 31/12/09	PARENT 31/12/09	GROUP 31/12/08	PARENT 31/12/08
ALL IN \$000				
Accounts Payable				
Due or due not later than one month	2,250	2,101	2,829	3,138
Due later than one month but not later than three months	-	-	138	138
Due later than three months but not later than one year	-	-	-	-
Due later than one year but not later than five years	-	-	-	-
Total	2,250	2,101	2,967	3,276
Term Loans				
Due or due not later than one month	-	-	-	-
Due later than one month but not later than three months	-	-	-	-
Due later than three months but not later than one year	-	-	-	-
Due later than one year but not later than five years	122,000	122,000	112,000	112,000
Total	122,000	122,000	112,000	112,000

Sensitivity analysis of liquidity risk is based on the Group's ability to adhere to banking covenants and negative pledge. The Group has \$18 million in unutilised funding facilities as at 31 December 2009 (2008: \$8 million). Management have frameworks in place to monitor the Group's liquidity and ensure that banking covenants are complied with.

Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to NZ IFRS 7 for financial instruments that are measured in the Statement of Financial Position at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group carries its interest rate swaps (derivative financial instruments) at fair value. The fair value of these instruments are determined using valuation techniques as disclosed in Note 2. These instruments with a total fair value of \$3,979,000 (2008: \$5,124,000) are included in level 2.

4. PROPERTY INCOME AND EXPENDITURE

These expenses include building maintenance and operating expenses not recoverable from tenants, property valuation fees and property leasing and investigation costs.

	GROUP 2009	GROUP 2008
ALL IN \$000		
Rent		
Rental income from investment property	31,428	32,470
Total	31,428	32,470
Property operating expenditure		
Direct operating expenses arising from property that generated rental income during the year	1,149	1,147
Direct operating expenses arising from property that did not generate rental income during the year	-	-
Total	1,149	1,147

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

5. DIRECTORS' FEES AND RELATED PARTY TRANSACTIONS

Directors' fees were as follows:

ALL IN \$000	GROUP	
	2009	2008
Peter Masfen	80	80
Humphry Rolleston	50	50
Michael Cashin	50	24
Anthony Beverley	-	-
Gareth Morgan	-	111
Total	180	265

No other benefits have been provided by the Company and Group to a Director for services as a Director or in any other capacity.

No loans have been made by the Company and Group to a Director nor has the Company or subsidiaries guaranteed any debts incurred by a Director. The Company has Directors' and Officers' liability insurance cover for \$10,000,000 with QBE Insurance International Limited.

The parent company pays a management fee to AMP Capital Investors (New Zealand) Limited which provides all management and administrative services.

Management fee income is recognised in the Statement of Comprehensive Income of the Parent company based on amounts invoiced for services received.

Management fees were on-charged as follows:

ALL IN \$000	PARENT	
	2009	2008
P.F.I. Property No. 1 Limited	1,102	1,236
P.F.I. Property No. 2 Limited	73	105
P.F.I. Property No. 3 Limited	85	158
P.F.I. Property No. 4 Limited	354	449
P.F.I. Property No. 5 Limited	284	311
PFI Property No. 6 Limited	8	9
Total	1,906	2,268

A dividend of \$75 million was paid by P.F.I. Property No. 1 Limited to the Parent company during the year. This was done to ensure the Parent company had sufficient retained earnings to pay dividends to shareholders.

Material transactions between the Company and its subsidiaries are shares and loans as disclosed in the Statement of Comprehensive Income and in Note 16.

The loans are repayable on demand and are interest free.

No related party debts have been written off or forgiven during the year (2008: nil).

6. OTHER EXPENDITURE

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
Compliance costs	195	184	52	45
Shareholder registry and reporting costs	274	238	274	238
Other	201	145	201	145
Total	670	567	527	428

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

7. INVESTMENT PROPERTIES

INVESTMENT PROPERTIES	VALUER	2009	2009	2009	2008
		FAIR VALUE	UNREALISED REVALUATION	ADDITIONS/ (DISPOSALS)	CARRYING VALUE
6 Donnor Place	CB Richard Ellis	14,675	(1,578)	7	16,246
686 Rosebank Road	Colliers International	19,423	(1,784)	719	20,488
212 Cavendish Drive	Colliers International	14,558	(657)	50	15,165
54 Carbine Road	Colliers International	13,896	(1,631)	78	15,449
58 Richard Pearse Drive	Jones Lang LaSalle	11,000	(1,206)	6	12,200
62 Neales Road	Jones Lang LaSalle	11,448	(1,482)	80	12,850
509 Mt Wellington Highway	Jones Lang LaSalle	11,148	(512)	21	11,639
3-5 Niall Burgess Road	Colliers International	12,200	(631)	31	12,800
17 Allens Road	Colliers International	10,487	(56)	3	10,540
44 Mandeville Street	CB Richard Ellis	9,923	(415)	8	10,330
4-6 Mt Richmond Drive	Jones Lang LaSalle	9,500	(1,118)	18	10,600
8-10 Cavendish Drive	CB Richard Ellis	7,711	(1,666)	7	9,370
2-6 Niall Burgess Road	Colliers International	8,700	(742)	42	9,400
80 Lunn Avenue	Colliers International	10,277	346	499	9,432
8 McCormack Place	CB Richard Ellis	8,490	(1,293)	33	9,750
322 Rosedale Road	CB Richard Ellis	9,899	(787)	2,126	8,560
61-69 Patiki Road	Colliers International	11,989	(550)	2,953	9,586
18 Cryers Road	Jones Lang LaSalle	7,499	(604)	3	8,100
11 Barnes Street	CB Richard Ellis	6,319	(1,967)	7	8,279
15 Copey Place	Jones Lang LaSalle	6,067	(1,133)	200	7,000
320 Rosebank Road	Jones Lang LaSalle	7,176	(270)	43	7,403
7 Carmont Place	Colliers International	6,299	(576)	8	6,867
55-59 Nesdale Avenue	Jones Lang LaSalle	6,698	(557)	27	7,228
7 Vestey Drive	Colliers International	5,780	(535)	-	6,315
8 Hugo Johnston Drive	CB Richard Ellis	6,280	(1,122)	1,645	5,757
15a Vestey Drive	Jones Lang LaSalle	5,678	(148)	31	5,795
511 Mt Wellington Highway	Jones Lang LaSalle	5,600	(22)	12	5,610
50 Parkside Road	CB Richard Ellis	4,340	(928)	18	5,250
11 Vestey Drive	Colliers International	5,403	414	-	4,989
41 William Pickering Drive	Jones Lang LaSalle	4,816	(68)	8	4,876
4 Rothwell Avenue	Colliers International	4,548	(751)	732	4,567
102 Mays Road	Jones Lang LaSalle	3,647	(710)	9	4,348
1 Ron Driver Place	Colliers International	3,700	(211)	21	3,890
76 Carbine Road	Colliers International	3,489	(661)	-	4,150
48 Seaview Road	CB Richard Ellis	4,430	(789)	34	5,185
29 Omega Street	CB Richard Ellis	3,349	117	-	3,232
956 Great South Road	CB Richard Ellis	2,484	(224)	39	2,669
417a Church Street	Colliers International	3,098	(287)	77	3,308
127 Waterloo Road	CB Richard Ellis	3,074	(74)	-	3,148
515 Mt Wellington Highway	Jones Lang LaSalle	2,930	(16)	4	2,942
12 Hugo Johnston Drive	CB Richard Ellis	3,048	(180)	246	2,982
47 Arrenway Drive	Colliers International	2,587	(62)	3	2,646
956a Great South Road	CB Richard Ellis	3,291	(414)	176	3,529
10 Niall Burgess Road	Colliers International	2,672	64	17	2,591
8 Stonedon Drive	Jones Lang LaSalle	2,549	(151)	-	2,700
523 Mt Wellington Highway	Colliers International	2,500	(103)	3	2,600
19 Omega Street	Colliers International	2,550	-	-	2,550

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

ALL IN \$000	VALUER	2009		2008	
		FAIR VALUE	UNREALISED REVALUATION	ADDITIONS/ (DISPOSALS)	CARRYING VALUE
INVESTMENT PROPERTIES					
1 Niall Burgess Road	CB Richard Ellis	2,217	(286)	13	2,490
5 Vestey Drive	Jones Lang LaSalle	2,350	6	16	2,328
50 Carbine Road	Jones Lang LaSalle	2,273	42	2	2,229
9 Vestey Drive	Jones Lang LaSalle	2,257	(92)	4	2,345
174b Marua Road	Colliers International	1,700	50	-	1,650
26f William Pickering Drive*	CB Richard Ellis	1,353	(310)	69	1,594
36 Vestey Drive	CB Richard Ellis	1,716	15	6	1,695
Investment properties held long term total		341,091	(28,305)	10,156	359,240
7-9 Niall Burgess Road	Colliers International	22,000	(66)	22,066	-
Investment properties purchased total		22,000	(66)	22,066	-
7-13 Fisher Crescent		-	-	(5,312)	5,312
16-18 Fisher Crescent		-	-	(3,945)	3,945
11 Dalgety Drive		-	-	(11,011)	11,011
Investment properties sold total		-	-	(20,268)	20,268
Investment properties (excluding capital work in progress)		363,091	(28,371)	11,954	379,508
Capital work in progress		175			3,526
Investment properties total		363,266			383,034

Key

*The Company has withdrawn 26f William Pickering Drive from the market and this property is no longer held for resale.

There has been no significant effect to the Statement of Comprehensive Income as a result of this reclassification.

The properties have been valued as at 31 December 2009. These firms are independent registered valuers. The valuations have been undertaken by valuers holding Associate of the New Zealand Institute of Valuers (ANZIV) membership status.

The total net current value of properties by valuer, are as follows:

ALL IN \$000	GROUP	
	2009	2008
CB Richard Ellis	92,599	84,593
Jones Lang LaSalle	102,636	59,795
DTZ New Zealand Ltd	-	235,120
Colliers International	167,856	-
Total	363,091	379,508

All valuations were dated 31 December 2009.

The valuations undertaken were based on fair value. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction at the date of valuation, in accordance with New Zealand Valuation Standards.

Further details of the valuation methodologies used by independent registered valuers are contained in Note 2.

Capital work in progress

ALL IN \$000	GROUP	
	2009	2008
Balance at the beginning of the year	3,526	2,081
Additions (capitalised costs, including capitalised interest and finance charges)	6,805	14,557
Transfer to investment property	(10,156)	(13,112)
Balance at the end of the year	175	3,526

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

8. TAXATION

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
Major components of income tax expense are:				
Current tax	(3,689)	(3,746)	2,818	2,897
Deferred tax	(480)	4,872	240	2,850
Total taxation	(4,169)	1,126	3,058	5,747

A reconciliation of income tax expense applicable to accounting profit before income tax at statutory income tax rates and to the Company's effective tax rate is as follows:

Operating loss for the year before taxation	(8,345)	(33,038)	66,580	(19,011)
At the statutory rate of 30%	(2,503)	(9,911)	19,974	(5,703)
Non deductible/(assessable) losses/(gains) on property devaluations/(revaluations)	6,672	8,442	(532)	-
Non assessable item (dividend from subsidiary)	-	-	(22,500)	-
Prior year adjustments	-	343	-	(44)
Tax expense/(benefit) for the year	4,169	(1,126)	(3,058)	(5,747)
Effective tax rate	49.9%	(3.4%)		

Balance Sheet

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
Deferred taxes				
Derivative financial instruments	(398)	(1,537)	(398)	(1,537)
Investment properties	4,056	4,595	-	-
Allowance for impairment	(165)	(45)	(165)	(45)
Total	3,493	3,013	(563)	(1,582)

Deferred tax movement

Deferred tax movements are attributable to the following:

	BALANCE 1 JANUARY 2009	RECOGNISED IN INCOME	BALANCE 31 DECEMBER 2009
Change in value of property investments	4,595	(539)	4,056
Derivative financial instruments	(1,537)	1,139	(398)
Other temporary differences	(45)	(120)	(165)
Total	3,013	480	3,493

	BALANCE 1 JANUARY 2008	RECOGNISED IN INCOME	BALANCE 31 DECEMBER 2008
Change in value of property investments	6,617	(2,022)	4,595
Derivative financial instruments	1,268	(2,805)	(1,537)
Other temporary differences	-	(45)	(45)
Total	7,885	(4,872)	3,013

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

9. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE

Basic and diluted earnings per share

ALL IN \$000	2009	2008
Loss attributable to ordinary shareholders	(12,514)	(31,912)
Weighted average number of ordinary shares at 31 December	213,455,574	211,467,583
Loss - cents per share	(5.86)	(15.09)

There are no instruments that could potentially dilute basic earnings per share in the future.

The calculation of basic (loss)/earnings per share at 31 December 2009 was based on the distributable profit attributable to ordinary shareholders of \$15,920,000 (2008: \$15,699,000) and a weighted average number of shares outstanding of 213,455,574 (2008: 211,467,583) calculated as follows:

Distributable earnings per share

ALL IN \$000	2009	2008
Total comprehensive income for the period	(12,514)	(31,912)
add back: deferred tax	480	(4,872)
add: unrealised devaluation/(revaluation) losses/(gains) and imputed interest	27,397	52,483
add: loss on disposal of investment property	557	-
Net distributable profit attributable to shareholders	15,920	15,699
Weighted average number of ordinary shares at 31 December	213,455,574	211,467,583
Distributable earnings - cents per share	7.46	7.42
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	212,434,449	210,508,187
Dividend reinvestments	2,109,058	1,926,262
Issued ordinary shares at 31 December	214,543,507	212,434,449

All profits were derived from continuing operations. There are no preference shares.

10. DIVIDEND PAID DURING THE YEAR

	2009 \$000	2009 DATE PAID	2008 \$000	2008 DATE PAID
Q4 prior year net dividend of 2.77 cps	5,152	18/03/2009	5,106	18/03/2008
Q1 net dividend of 1.55 cps	3,303	15/05/2009	3,271	13/05/2008
Q2 net dividend of 1.55 cps	3,310	27/08/2009	3,276	19/08/2008
Q3 net dividend of 1.65 cps	3,531	26/11/2009	3,495	26/11/2008
Total paid during year	15,296		15,148	

11. SUBSEQUENT EVENTS: PROPOSED DIVIDEND

On 19 February 2010, the Directors of the Company approved the financial statements and the payment of a dividend of \$ 5,202,680 (2.425 cents per share) to be paid on 18 March 2010. (The gross dividend of 2.8637 cps carries imputation credits of 0.4387 cps).

The payment of this dividend will not have any tax consequences for the Group.

No such liability has been recognised in the Statement of Comprehensive Income for 31 December 2009.

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

12. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
ALL IN \$000	2009	2008	2009	2008
Cash at bank	-	533	-	533
Bank overdraft	(1,076)	-	(1,076)	-
Total	(1,076)	533	(1,076)	533

The carrying amounts of cash and cash equivalents represent fair value. Bank overdraft terms are repayable on demand and interest rates applicable are the NZ interbank settlement 90 day benchmark borrowing rate plus a margin.

13. VENDOR FINANCE RECEIVABLE

As part of an agreement to sell 11 Dalgety Drive, an interest free mortgage of \$4.7 million was registered on 10 June 2009. The carrying value of this mortgage at amortised cost is \$4,529 million. The mortgage repayment date is 30 June 2010.

14. ACCOUNTS RECEIVABLE

	GROUP		PARENT	
ALL IN \$000	2009	2008	2009	2008
Accounts receivable	660	677	2	181
Allowance for impairment	(375)	(300)	-	(50)
Total	285	377	2	131

The average credit term on invoiced amounts is 30 days, and is interest free.

Movements on the Group provision for impairment of trade receivables are as follows:

ALL IN \$000	2009	2008
As at 1 January	300	-
Provision for receivables impairment	175	300
Receivables written off during the year as uncollectable	-	-
Unused amounts reversed	(100)	-
As at 31 December	375	300

The creation and release of impaired receivables have been included in 'other expenses' in the Statement of Comprehensive Income (Note 6).

Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The Group does not hold any collateral as security.

The directors have assessed the credit profile of receivables at year end and determined that there are no individually impaired assets.

However, the directors have considered that a collective allowance of \$375,000 is appropriate based on the Group's past experience with respect to recoveries of debtors.

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

15. PREPAID LEASING COSTS AND TENANCY INCENTIVES

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
Prepaid leasing costs	1,484	1,664	-	-
Tenancy incentives and other prepayments	1,585	458	437	395
Allowance for impairment	(175)	-	-	-
Total	2,894	2,122	437	395

Movements on the Group provision for impairment of prepayments are as follows:

ALL IN \$000	2009	2008
As at 1 January	-	-
Provision for prepayments impairment	175	-
Unused amounts reversed	-	-
As at 31 December	175	-

The creation and release of impaired prepayments have been included in 'other expenses' in the Statement of Comprehensive Income (Note 6).

Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The Group does not hold any collateral as security.

The directors have assessed the credit profile of prepayments at year end and determined that there are no individually impaired assets.

However, the directors have considered that a collective allowance of \$175,000 is appropriate based on the Group's past experience with respect to recoveries of prepayments.

16. GROUP COMPANIES

Group Companies are all 100% owned with balance dates of 31 December. All six subsidiary companies participate in the property investment industry. All subsidiaries are incorporated in New Zealand.

These comprise:

ALL IN \$000	INVESTMENT IN SUBSIDIARY	SUBSIDIARY LOANS	SUBSIDIARY LOANS	PERCENTAGE OWNERSHIP	BALANCE DATE OF COMPANY
	2009	2009	2008		
P.F.I. Property No. 1 Limited	-	149,442	60,166	100%	31 December
P.F.I. Property No. 2 Limited	1,750	9,593	168	100%	31 December
P.F.I. Property No. 3 Limited	-	15,186	13,876	100%	31 December
P.F.I. Property No. 4 Limited	-	3,856	20,928	100%	31 December
P.F.I. Property No. 5 Limited	-	5,912	21,151	100%	31 December
P.F.I. Property No. 6 Limited	-	2,472	2,385	100%	31 December
Total	1,750	186,461	118,674		

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

17. ACCOUNTS PAYABLE AND ACCRUALS

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
Accounts payable and accruals	2,032	2,507	2,101	3,276
Property capital expenditure accruals	218	460	-	-
Total	2,250	2,967	2,101	3,276

The average credit period on purchases of goods and services is 30 days. No interest is charged on the accounts payable. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

18. DERIVATIVE FINANCIAL INSTRUMENTS

ALL IN \$000	GROUP	
	2009	2008
Current assets		
Interest rate swaps	-	-
Current liabilities		
Interest rate swaps	3,979	5,124
Net interest rate swaps	(3,979)	(5,124)

19. BORROWINGS

The Group's debt facilities total \$140,000,000 (undrawn \$18,000,000) as at 31 December 2009 (2008: \$120,000,000, undrawn \$8,000,000) and are provided by Bank of New Zealand.

All borrowings are interest only and security is by way of a negative pledge for Tranche 1 (\$120,000,000) and registered mortgage security over properties for Tranche 2 (\$20,000,000). The security by way of negative pledge for Tranche 1 (\$120,000,000) is such that the guaranteeing group (The Company, P.F.I. Property No. 1 Limited, P.F.I. Property No. 2 Limited, P.F.I. Property No. 4 Limited, P.F.I. Property No. 5 Limited and P.F.I. Property No. 6 Limited) will not create any security over the whole or part of the guaranteeing group's assets and cross guaranteeing structure including the borrower and the respective subsidiaries. The registered mortgage security for Tranche 2 (\$20,000,000) covers all properties owned by P.F.I. No. 3 Limited. The Group is also required to comply with bank covenants pursuant to the BNZ Facility Agreement.

The Group complied with all bank covenants during the financial year ended 31 December 2009.

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
Facilities maturing				
BNZ Committed Cash Facility – 30 September 2011	122,000	112,000	122,000	112,000
Total borrowings	122,000	112,000	122,000	112,000
Undrawn facilities available				
BNZ Committed Cash Facility – 30 September 2011	18,000	8,000	18,000	8,000
Total facilities	140,000	120,000	140,000	120,000

Interest rates charged are at the New Zealand interbank settlement 90 day benchmark borrowing rate plus a bank margin and a line fee.

As at 31 December 2009, the total weighted average interest rate applied to borrowings was 6.69% (2008: 7.66%).

Through the use of interest rate swap agreements, the Company has as at 31 December 2009 fixed the interest rate on \$78,000,000 (2008: \$93,000,000), or 64% (2008: 83%) of its term debt, for a weighted average term of 1.81 years (2008: 2.5 years) and a weighted average swap interest rate of 6.68% (2008: 6.99%).

Schedule of swap and fixed maturities	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 %	2008 %
Interest rate cover < 1yr	13,000	15,000	6.49	8.62
Interest rate cover 1 – 2yr	25,000	13,000	6.52	6.49
Interest rate cover 2 – 5yr	40,000	65,000	6.83	6.71
Interest rate cover > 5yr	-	-	-	-
Total	78,000	93,000	6.68	6.99

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

20. SHARE CAPITAL – FULLY PAID

Fully paid ordinary shares carry equal voting rights and share equally in dividends and any surplus on wind up.

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
Shareholder Capital at the beginning of the year				
212,434,449 ordinary shares at 1 January	162,526	160,309	162,526	160,309
Dividend reinvestments 2,109,058 ordinary shares	2,310	2,217	2,310	2,217
Shareholder Capital at the end of the year				
214,543,507 ordinary shares at 31 December	164,836	162,526	164,836	162,526

21. MOVEMENT IN RESERVES

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
i) Retained earnings				
Balance at the beginning of the year	99,969	147,029	(159,944)	(131,532)
Net profit/(loss) attributable to ordinary equity holders of the Company	(12,514)	(31,912)	69,638	(13,264)
Dividends distributed	(15,296)	(15,148)	(15,296)	(15,148)
Balance at the end of the year	72,159	99,969	(105,602)	(159,944)
ii) Ordinary share capital				
Balance at the beginning of the year	162,526	160,309	162,526	160,309
Dividends reinvested	2,310	2,217	2,310	2,217
Balance at the end of the year	164,836	162,526	164,836	162,526
iii) Equity				
Total equity at the beginning of the year	262,495	307,338	2,582	28,777
Total equity at the end of the year	236,995	262,495	59,234	2,582

Ordinary share capital

Ordinary share capital comprises issued shares that are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Retained earnings

Retained earnings comprises accumulated profits of the Group and Company.

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

22. RECONCILIATION OF PROFIT AFTER TAX WITH NET CASH FROM OPERATING ACTIVITIES

ALL IN \$000	GROUP		PARENT	
	2009	2008	2009	2008
Profit/(loss) after tax	(12,514)	(31,912)	69,638	(13,264)
Add/(less) non-cash items and non-operating items				
Unrealised loss/(gain) on investment properties	28,371	43,128	-	-
Unrealised loss/(gain) on swaps	(1,145)	9,355	(1,145)	9,355
Imputed interest income on vendor finance receivable held at amortised cost	(181)	-	-	-
Dividend from subsidiary	-	-	(75,000)	-
Loss on disposal of investment property	557	-	-	-
Deferred Taxation	480	(4,872)	(1,019)	(2,850)
Add/(less) movements in working capital items				
(Increase)/decrease in accounts receivable	92	261	128	507
Increase/(decrease) in accounts payable	(717)	303	(1,175)	612
Increase/(decrease) in tax payable	592	1,187	618	803
Increase/(decrease) in GST payable	122	45	122	45
Other working capital movements	421	(1,325)	(456)	(316)
Net cash inflows/(outflows) from operating activities	16,078	16,170	(8,289)	(5,108)

23. CAPITAL COMMITMENTS

The Company's capital commitments were \$0.38 million as at 31 December 2009 (2008: \$3.70 million). These comprise development works being undertaken in respect of existing properties.

The Company had no unconditional purchase contracts at 31 December 2009 (2008: nil).

The Parent had no capital commitments at 31 December 2009 (2008: nil).

Operating Lease Commitments as Lessor

The Company has entered into commercial property leases on its investment portfolio. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 10 years.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

ALL IN \$000	GROUP	
	2009	2008
Within one year	32,636	32,079
After one year but not more than five years	95,144	98,331
More than five years	21,099	24,276

Note: The above rental numbers are based on contract rates as at 31 December 2009. Actual rental amounts in future will differ due to rent review provisions within the lease agreements.

24. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 December 2009 (2008: nil).

25. OPERATING SEGMENTS

The Group has adopted NZ IFRS 8 which is mandatory for the first time for the financial year beginning 1 January 2009.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker has been identified as the Board of Directors that makes strategic decisions. The Group and Company are internally reported as a single operating segment to the chief operating decision maker hence no further changes to reportable segments have been made compared to previous segments reported under NZ IAS 14 'Segment Reporting'.

Notes to and Forming Part of the Financial Statements

For the year ended 31 December 2009

26. IMPUTATION CREDIT ACCOUNT

ALL IN \$000	PARENT	
	2009	2008
Opening imputation credit balance	183	119
Taxation paid	3,140	2,825
Refunds	(69)	(275)
Imputation credits attached to dividends paid	(3,827)	(3,191)
Prior year adjustments	328	705
Closing imputation credit balance available to shareholders	(245)	183

27. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 19, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 12, 20 and 21 respectively.

The Group has a self imposed maximum bank debt to property assets ratio of 35% and at balance date this ratio was 33.2% (2008: 28.9%).

Debt to Equity ratio

The Group's management reviews the capital structure on a monthly basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

ALL IN \$000	GROUP	
	2009	2008
The Debt to Equity ratio at the year end was as follows:		
Debt (i)	122,000	112,000
Cash and cash equivalents	1,076	(533)
Total debt	123,076	111,467
Equity (ii)	236,995	262,495
Net debt to equity ratio	52%	43%

(i) Debt is defined as long and short term borrowings as disclosed in Note 19.

(ii) Equity includes all capital and reserves of the Group.

The borrowings are subject to a negative pledge (Tranche 1: \$120,000,000), registered mortgage securities (Tranche 2: \$20,000,000), as well as compliance with bank covenants (refer Note 19).

Audit Report



TO THE SHAREHOLDERS OF PROPERTY FOR INDUSTRY LIMITED

We have audited the financial statements on pages 22 to 42. The financial statements provide information about the past financial performance and financial position of the Company and Group as at 31 December 2009. This information is stated in accordance with the accounting policies set out in Note 1 to the financial statements.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors is responsible for the preparation of the financial statements which gives a true and fair view of the financial position of the Company and Group as at 31 December 2009 and the results of their operations and cash flows for the year ended on that date.

AUDITOR'S RESPONSIBILITIES

It is our responsibility to express to you an independent opinion on the financial statements presented by the directors.

BASIS OF OPINION

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

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Company and Group circumstances, consistently applied and adequately disclosed.

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

Other than the provision of compliance review engagements and in our capacity as auditor we have no relationship with, or interests in, the Company or any of its subsidiaries.

UNQUALIFIED OPINION

We have obtained all of the information and explanations we have required.

IN OUR OPINION:

- Proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- The financial statements on pages 22 to 42
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of the financial position of the Company and Group as at 31 December 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 12 March 2010 and our unqualified opinion is expressed as at that date.

BDO Auckland
Auckland

Corporate Governance and Statutory Disclosure

PRINCIPAL ACTIVITY

Property For Industry Limited (PFI) is a listed industrial property investment company. It currently invests solely in New Zealand. There has not been any change in the nature of the company's business in the year ended 31 December 2009, nor in the classes of business in which the company has an interest.

GOVERNANCE

The Board of PFI is committed to the highest standards of business behaviour and accountability. The Board regularly reviews and assesses PFI's governance structures and processes to ensure they are consistent with best practice standards. As part of the Board's ongoing monitoring and review of PFI's governance framework, the Board has developed a Corporate Governance Manual that forms PFI's corporate governance framework. The Manual includes a code of ethics, describes the Board's role and responsibilities and regulates Board procedures. It incorporates the New Zealand Exchange Limited NZSX Listing Rules relating to corporate governance, the NZX Corporate Governance Best Practice Code recommendations and the New Zealand Securities Commission Governance Principles and Guidelines. A copy of the Manual is available on the website at www.pfi.co.nz

The Corporate Governance Manual includes:

1. Code of Ethics;
2. Board Charter;
3. Audit Committee Charter;
4. Nomination Policy;
5. Remuneration Policy;
6. Share Trading Policy; and
7. Audit Independence Policy.

COMPLIANCE WITH NZX REQUIREMENTS

The NZX Corporate Governance Best Practice Code requires that companies such as PFI disclose the ways in which their corporate governance processes materially differ from the processes prescribed by the Code. PFI complies with the NZX Corporate Governance Best Practice Code except as stated below.

CODE OF ETHICS

The Board has developed a code of ethics that forms part of the Corporate Governance Manual. The code of ethics is intended to provide a framework for PFI's directors, managers, representatives and subsidiaries by which they are expected to conduct their duties by facilitating behaviour that is consistent with PFI's business standards. The code is available on the website at www.pfi.co.nz

BOARD COMPOSITION, APPOINTMENTS, INDEPENDENCE AND OPERATION

The constitution allows for between three and eight directors. As at 31 December 2009 there were four directors: one representative of the manager and three independent directors. It is company policy that there should always be a majority of independent directors.

The company's directors as at 31 December 2009 were:

- Peter H Masfen (Chairman);
- Humphry J D Rolleston;
- Michael J Cashin;
- Anthony M Beverley;

As at balance date, Peter Masfen, Humphry Rolleston and Michael Cashin were independent directors. Anthony Beverley was not an independent director.

The constitution provides that one third (or the nearest whole number to one third) of the directors must offer themselves for re-election at a meeting of shareholders each year.

BOARD COMMITTEES

The Board has established an audit committee in accordance with the NZX Corporate Governance Best Practice Code. The Audit Committee has developed a written charter that outlines the Audit Committee's authority, duties, responsibilities and relationship with the Board. The Board is required to regularly review the performance of the Audit Committee. In addition to the Audit Committee Charter the Board has developed a policy on audit independence.

Members of the Audit Committee are Peter Masfen, Humphry Rolleston and Michael Cashin.

The Board has not established a nomination committee or a remuneration committee. This differs from the NZX Corporate Governance Best Practice Code recommendation that the Board establishes these committees to recommend director appointments to the Board and recommend remuneration packages for directors to the shareholders. The Board considers that size constraints prevent it from establishing such committees. However, the Board has developed nomination and remuneration policies which form part of the Corporate Governance Manual and are intended to guide the directors in making nominations and developing remuneration packages. The Board considers that the policies are consistent with best practice governance standards and this approach is appropriate given the size of the Board.

Corporate Governance and Statutory Disclosure

BOARD CHARTER

The Board has developed a charter that sets out its authority, duties and responsibilities. The Board has adopted the following governance objectives:

- to establish a clear framework for oversight and management of the company's operations and for defining the respective roles and responsibilities of the Board and management;
- to structure itself to be effective in discharging its responsibilities and duties;
- to set standards of behaviour expected of the company's managers and representatives;
- to safeguard the integrity of the company's financial reporting;
- to ensure timely and balanced disclosure;
- to respect and facilitate the rights of shareholders;
- to recognise and manage risk;
- to encourage Board and management effectiveness;
- to remunerate fairly and responsibly;
- to recognise the legitimate interests of all stakeholders.

The Board also has statutory responsibility for the affairs and activities of the company. It is responsible for producing annual financial statements that comply with generally accepted accounting practice and provide a true and fair view of the company's financial position.

The Board has an obligation to protect and enhance the value of the assets of the company for the benefit of shareholders. It achieves this through approval of appropriate corporate strategies, with particular attention to capital structure, acquisition, property development and divestment proposals, capital expenditure and the review of the performance of the manager on a monthly basis.

The Board delegates implementation of the adopted corporate strategies to the manager.

The manager is contractually bound to manage the company for which it receives a management fee. The manager's duties are defined as:

- investment management duties;
- property management duties;
- administrative management duties.

The manager is responsible for attending to the financial and reporting needs of the company. The company's auditor conducts a compliance review every quarter at the company's cost. This review ensures that adequate controls are in place, cash funds are promptly invested, and payments are made when and where appropriate and correctly accounted for.

The Audit Committee, comprising all independent directors, meets twice a year or more frequently if required to review and approve the interim and year-end financial accounts. The Audit Committee meets once a year (or more frequently if required) with the auditor to review the outcome of the annual audit and to recommend the annual audit and the annual financial statements for adoption by the Board.

The Board adopts a financial budget prior to the commencement of each financial year.

ATTENDANCES OF DIRECTORS AT THE 2009 FORMAL MEETINGS OF THE BOARD AND AUDIT COMMITTEE

	BOARD OF DIRECTORS		AUDIT COMMITTEE	
	MEETINGS HELD	MEETINGS ATTENDED	MEETINGS HELD	MEETINGS ATTENDED
Peter Masfen	8	8	2	2
Humphry Rolleston	8	8	2	2
Michael Cashin	8	8	2	2
Anthony Beverley*	8	8	0	0

*Anthony Beverley is not a member of the Audit Committee

DIRECTORS' INTERESTS REGISTER

In June 2009, the Board authorised the renewal of the Directors' and Officers' insurance cover as at 30 June 2009 for a period of 12 months and has certified, in terms of section 162 of the Companies Act 1993, that this cover is fair to the company. No director has given notice to the company of an interest in any transaction with the company. No director has sought authorisation to use company information.

Corporate Governance and Statutory Disclosure

DIRECTORS' REMUNERATION

As noted previously, the Board, in setting the directors' remuneration, is to be guided by the remuneration policy that forms part of the Corporate Governance Manual. There has been no change to the remuneration paid to the directors in 2009.

	2009	2008
Peter Masfen	80	80
Humphry Rolleston	50	50
Michael Cashin	50	24
Anthony Beverley	-	-
Gareth Morgan	-	111
Total	180	265

DEALING IN COMPANY SECURITIES DURING 2009

The Board has developed a policy that covers trading in PFI's securities and the disclosure requirements for directors, managers and representatives. This policy forms part of the Corporate Governance Manual and is available on the website at www.pfi.co.nz

	NO. OF SHARES ACQUIRED/ (DISPOSED OF)	CONSIDERATION PER SHARE	DATE
Peter Masfen	-	-	-
Humphry Rolleston	2,311	\$1.08	18 Mar 09
	1,474	\$1.10	15 May 09
	1,300	\$1.16	2 Jun 09
	(1,300)	\$1.16	24 Jun 09
	1,568	\$1.05	27 Aug 09
	1,538	\$1.16	26 Nov 09
Michael Cashin	-	-	-
Anthony Beverley	-	-	-

Neither the Company nor its subsidiaries have provided any other benefits to a director for services as a director or in any other capacity.

Neither the Company nor its subsidiaries have made loans to a director, nor has the Company or subsidiaries guaranteed any debts incurred by a director.

DIRECTORS' SHAREHOLDINGS AS AT 31 DECEMBER 2009

	RELEVANT INTEREST	2009	2008
Peter Masfen	Beneficial	4,000,905	4,000,905
	Non-beneficial	250,000	250,000
Humphry Rolleston	Beneficial	124,415	117,524
	Non-beneficial	902,317*	188,783*

*AMP Capital Investors Managed Funds as of 8 March 2010

All the above are also directors for P.F.I. Property No. 1 Limited, P.F.I. Property No. 2 Limited, P.F.I. Property No. 3 Limited, P.F.I. Property No. 4 Limited, P.F.I. Property No. 5 Limited and PFI Property No.6 Limited.

DONATIONS

Neither the Company nor its subsidiaries made any donations during the year.

AUDITOR'S FEES

BDO	Audit fees	\$49,000
	Other fees paid to auditors for agreed upon procedures engagements	\$16,000

Shareholder Statistics

SUBSTANTIAL SHAREHOLDER NOTICES AS AT 8 MARCH 2010

As at 8 March 2010 the total number of shares on issue was 214,543,507.

HOLDER	ORDINARY SHARES	PERCENTAGE HOLDING
	13,199,997 (previously 14,783,084)	6.91% (previously 9.87%)

Filed on 30 November 2009

20 LARGEST REGISTERED SHAREHOLDERS AS AT 8 MARCH 2010

CONSOLIDATED HOLDER	HOLDING	PERCENTAGE HOLDING
1 Custodial Services Limited	18,581,228	8.66%
2 First NZ Capital Custodians Limited	11,254,656	4.83%
3 Investment Custodial Services Limited	10,367,656	4.83%
4 Private Nominees Limited	5,415,276	2.52%
5 Masfen Securities Limited	4,000,905	1.86%
6 Forbar Custodians Limited	2,547,623	1.19%
7 PMG Trust Limited	1,279,304	0.60%
8 Rajeshwar Sarup Bhatnagar & Daniel Martin Virtue - R S Bhatnagar Family	1,230,000	0.57%
9 Superlife Trustee Limited	1,136,842	0.53%
10 University Of Otago	1,008,739	0.47%
11 Clifford Stuart Lyon	891,454	0.42%
12 Portfolio Custodian Limited	584,132	0.27%
13 Forhomes Investments Limited	543,231	0.25%
14 Frimley Foundation	500,000	0.23%
15 H B Williams Turanga Trust	500,000	0.23%
16 Mr Alfred James Wakefield & Dr Susan Wakefield	500,000	0.23%
17 Dingwall Trust	415,000	0.19%
18 First NZ Capital Custodian	412,822	0.19%
19 Donald Alexander Clark & Joy Yvonne Clark	402,000	0.19%
20 Hugh Earle Perrett & Patricia Gwendolyn Perrett	400,000	0.19%

SHAREHOLDER SPREAD AS AT 8 MARCH 2010

ORDINARY SHARES	NUMBER OF HOLDERS	PERCENTAGE OF HOLDERS	PERCENTAGE HOLDING
up to 5,000	943	18.39%	1.16%
5,001 - 10,000	1,058	20.63%	3.49%
10,001 - 50,000	2,643	51.52%	25.62%
50,001 - 100,000	323	6.30%	9.63%
100,001 - 500,000	140	2.73%	11.11%
500,001 above	22	0.43%	48.99%
Total	5,129	100.00%	100.00%

GEOGRAPHICAL SPREAD AS AT 8 MARCH 2010

ORDINARY SHARES	NUMBER OF HOLDERS	PERCENTAGE OF HOLDERS
Auckland & Northern Region	1,678	32.7%
Hamilton & Surrounding Districts	1,225	23.9%
Wellington & Central Districts	1,056	20.6%
Nelson, Marlborough & Christchurch	710	13.8%
Dunedin & Southland	377	7.4%
Unknown	14	0.3%
Overseas	69	1.3%
Total	5,129	100.0%

DIRECTORY

Directors

Peter Masfen (Chairman)
Humphry Rolleston
Michael Cashin
Anthony Beverley

Registered Office

Ground Floor
PWC Tower
113-119 The Terrace
Wellington 6011

Manager

AMP Capital Investors
(New Zealand) Limited
Level 18
AMP Centre
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Auckland
Ph 09 302 0217
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www.pfi.co.nz

General Manager

Ross Blackmore

Company Secretary

Andrew Penn

Chief Financial Officer

Jeff Moore

Acquisition and Development Manager

David Chafer

Portfolio Manager

Hamish McCulloch

Asset Manager

Philippa Walker

Legal Advisors

Morrison Kent
Morrison Kent House
105 The Terrace
PO Box 10-035
Wellington

Burton and Co
Level 3
16 Viaduct Harbour Avenue
PO Box 8889
Auckland

Bankers

Bank of New Zealand
State Insurance Tower
1 Willis Street
PO Box 2392
Wellington

Auditors

BDO
Level 8
120 Albert Street
PO Box 2219
Auckland

Share Registrar

Computershare Investor
Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna
North Shore City 0622
New Zealand

Managing your Shareholding Online

To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:

www.computershare.co.nz/investorcentre

General enquiries can be directed to:

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