

consolidated statement of cash flows

ALL IN \$000'S	NOTE	UNAUDITED	UNAUDITED	AUDITED
		6 MTHS ENDED 30 JUNE 2005	6 MTHS ENDED 30 JUNE 2004	YEAR ENDED 31 DEC 2004
Cash Flows from Operating Activities				
Receipts from tenants		12,477	11,652	23,813
Interest received		40	22	47
Payments to suppliers		(1,435)	(2,579)	(2,241)
Interest on loans		(2,160)	(2,374)	(5,164)
Income tax		(1,237)	(1,070)	(3,286)
Net goods & services tax		(106)	133	124
Net Cash Inflow/(Outflow) from Operating Activities	³	7,579	5,784	13,293
Cash Flows from Investing Activities				
Repayment of vendor mortgage		-	-	(500)
Purchase of investment properties		(9,965)	(8,810)	(11,375)
Net Cash Inflow/(Outflow) from Investing Activities		(9,965)	(8,810)	(11,875)
Cash Flows from Financing Activities				
Funds introduced by shareholders		1,844	967	2,356
Drawdown/(Repayment) of borrowings		7,500	8,225	8,225
Dividend paid		(6,990)	(6,308)	(12,080)
Net Cash Inflow/(Outflow) from Financing Activities		2,354	2,884	(1,499)
Net Increase/(Decrease) in Cash Held		(32)	(142)	(81)
Add cash brought forward		308	389	389
Ending cash carried forward		276	247	308

consolidated statement of movements in equity

ALL IN \$000'S	UNAUDITED	UNAUDITED	AUDITED
	6 MTHS ENDED 30 JUNE 2005	6 MTHS ENDED 30 JUNE 2004	YEAR ENDED 31 DEC 2004
Equity at start of the period	196,431	163,544	163,544
Net surplus for the period	6,585	6,415	42,611
Total recognised revenues and expenses for the period	6,585	6,415	42,611
Contributions from owners	1,844	967	2,356
Dividends to owners	(6,990)	(6,308)	(12,080)
Equity at end of the period	197,870	164,618	196,431

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notes to the consolidated financial statements

1. changes in accounting policies

The interim financial statements of Property For Industry Limited have been prepared in accordance with Financial Reporting Standard No 24 Interim Financial Statements and should be read in conjunction with the annual report for the year ended 31 December 2004.

The financial statements have been prepared in accordance with accounting policies as stated in the published financial statements to 31 December 2004. There have been no changes in accounting policies and all policies have been applied on a basis consistent with those used in prior periods. Comparable half year values for June 2004 have been shown below in brackets.

2. capital commitments

As at 30 June 2005 the company has \$6,353,000 capital commitments. (2004 \$ Nil).

3. reconciliation of net surplus after tax with cash inflow/ (outflow) from operating activities

ALL IN \$000'S	UNAUDITED	UNAUDITED	AUDITED
	AS AT 30 JUNE 2005	AS AT 30 JUNE 2004	YEAR ENDED 31 DEC 2004
Net Surplus	6,585	6,415	42,611
Add (less) non-cash items			
Unrealised gain on revaluation of investment properties	-	-	(29,972)
Movements in working capital			
Decrease (increase) in receivables	(237)	24	(93)
Increase (decrease) in payables	658	(1,595)	436
Increase (decrease) in tax liability	636	559	(26)
Increase (decrease) in GST payable	(106)	133	124
Other working capital movements	43	248	213
Net Cash Inflow/(Outflow) from Operating Activities	7,579	5,784	13,293

4. term loan and interest rate swaps

The company has drawn down \$82,000,000 (2004: \$74,500,000) of the available Bank of New Zealand loan facility of \$90,000,000. The average interest rate applied to this funding is 6.68% (2004: 5.51%) plus banking margin. Through the use of interest rate swaps and forward rate agreements Property For Industry has effectively fixed the interest rate at 6.52%, for 83% of its current debt, for an average of 3.05 years (2004: 6.58% interest, 91% cover, 2.53 years duration).

5. share capital

During the period the company issued 1,847,908 shares under the Dividend Reinvestment Programme for a value of \$1,843,660 (2004 1,109,444 shares for \$967,689).

The total number of shares as at 30 June was 205,321,813.

6. events after balance date

On 19 July 2005, the board of directors approved the payment of a dividend of \$2,925,835.84 (1.425 cents per share) which was paid on 10 August 2005).

7. impact of adopting new zealand equivalents to international financial reporting standards

In December 2002, the New Zealand Accounting Standards Review Board determined that all New Zealand reporting entities will be required to adopt New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for reporting periods beginning on or after 1 January 2007, with the option of early adoption for periods beginning on or after 1 January 2005.

The directors have made the decision to adopt NZ IFRS from 1 January 2007.

Accordingly, the adoption of NZ IFRS will be first reflected in the Group's interim report for the six-month period ended 30 June 2007.

Entities complying with NZ IFRS for the first time will be required to restate their comparative financial statements reflecting the adoption of NZ IFRS for that period. Most adjustments required on transition to NZ IFRS will be made, retrospectively, against Reserves.

key area changes

The company has identified a number of areas where accounting policy changes will be required. Where possible the company has made a reliable estimate on the impact on the financial statements for the half year ended 30 June 2005.

These NZ IFRS are still subject to ongoing interpretation and review by both the company and the industry. Furthermore, NZ IFRS will continue to be reviewed, with new or amended Reporting Standards issues.

As a result the effect that the actual impact of adopting NZ IFRS may vary from the estimates presented below and that the variation may be material.

The most significant differences in accounting policies that are expected to impact the company on adoption of NZ IFRS are:

1. investment and properties

Currently Investment Properties are measured at net current value being market value less an allowance for disposal costs. Under NZ IFRS, investment properties will be measured at fair value with no allowance for disposal costs.

On initial adoption of NZ IFRS, the value of investment properties will increase to reflect the add back of disposal costs previously deducted from valuations. The change in carrying value of investment properties will be restated through retained earnings. On an ongoing basis the adoption of NZ IFRS will result in the absence of disposal costs in future property valuations.

Effect on Investment Properties as at 30 June 2005 (based on revaluation at 31 Dec 2004):

Investment Properties as at 30 June 2005	\$275,744,000
Allowance for disposal costs	\$6,168,000
Investment Properties under NZ IFRS	\$281,912,000

2. deferred tax

The company currently accounts for income tax on a partial basis. Under NZ IFRS the company will be required to account for income tax on a comprehensive basis. Under this basis the company will recognise all taxable temporary differences.

2.1 depreciation

The company does not recognise deferred tax in respect of tax depreciation claimed on investment properties as it is not intended that the investment properties will be sold.

Under NZ IFRS, depreciation claimed for tax purposes is considered a temporary difference resulting in a deferred tax liability.

On initial adoption of NZ IFRS, a deferred tax liability will be established representing the tax effect (33%) of the value of accumulated tax depreciation claimed on existing properties in prior years. Opening Retained Earnings will be adjusted to recognise this liability. On an ongoing basis, a deferred tax expense, and a corresponding liability, will be recognised in respect of tax depreciation claimed each year. At 30 June 2005 the deferred tax liability in relation to depreciation claimed was \$16,392,717. While this change will impact net assets, it is a non-cash adjustment.

2.2 investment property revaluations

The company does not currently recognise a deferred tax liability on investment property revaluations (excluding the land component) in excess of cost, as gains on investment properties are not taxable. Under NZ IFRS the company is required to provide a deferred tax liability on such gains. On initial adoption of NZ IFRS, a deferred tax liability will be established representing the value of deferred tax on past revaluations, with a corresponding charge to Reserves. On an ongoing basis, a deferred tax expense, and a corresponding liability, will be recognised in the year of revaluation. While this change will impact net assets, it is a non-cash adjustment. As at 30 June the deferred tax liability on investment property revaluations could not be reliably estimated.

The deferred tax liability will not crystallise in the ordinary course of business. On disposal of a property, the deferred tax liability will be reversed back to the Statement of Financial Performance

3. financial instruments

Currently, any gains and losses on derivative instruments (such as interest rate swaps) that are designated as hedges of specific items are accounted for on the same basis as the underlying hedged item. The net differential paid or received, in respect of that derivative, is recognised as a component of Interest in the Statement of Financial Performance.

Under NZ IFRS there is a requirement to recognise the fair value of all derivative instruments in the Statement of Financial Position. If the instrument does not meet the requirements for hedge accounting then any mark to market movements will be recognised in the Statement of Financial Performance. If a derivative instrument does qualify for hedge accounting then any mark to market movements will be recognised directly within the Statement of Movements in Equity, then released to the Statement of Financial Performance in accordance with the movements in the underlying hedged instrument.

NZ IFRS is prescriptive in terms of the requirements to be satisfied in order to qualify for hedge accounting. The company continues to evaluate whether it will qualify for hedge accounting. This change is a non-cash adjustment.

As at 30 June 2005 the company had unrealised gains on interest rate swaps of \$48,960. This would result in an asset of \$48,960.

ten years of getting on with business

highlights

net profit and dividends continue to increase

99.9% occupancy rate maintained

2005 rent review programme – over 80,000 sqm in progress

development programme continuing with four new projects announced

Lunn Ave property purchased for \$4.65 million

buoyant industrial leasing and investment markets



PETER MASFEN CHAIRMAN ROSS BLACKMORE GENERAL MANAGER



6A DONNOR PLACE



80 LUNN AVENUE



8 McCORMACK PLACE

financial performance

During the first six months of 2005, PFI received \$12.714 million in rentals, a 9.3% increase over the comparable period last year. This increase is due to rent reviews, continued low vacancy and the additional income from 2004's acquisitions and new developments.

Interest costs were up slightly because of additional borrowings to fund PFI's development and acquisition activities. The performance fees payable to PFI's manager increased as a result of continued dividend growth and share price appreciation over the past 12 months.

Property expenses were steady, the pre-tax profit was up 5.1% on last year, and the post tax profit was up 2.7% to \$6.585 million. Earnings per share increased to 3.22 cents per share, a 1.1% gain over the first six months of 2004.

dividends

A second quarter dividend of 1.425 cents per share with imputation credits of 0.319 cents per share has been distributed to shareholders. The same dividend was distributed in the first quarter, meaning that so far this year shareholders have received dividends of 2.85 cents per share with imputation credits of 0.638 cents per share – an increase of 1.8% on the same period last year.

dividend reinvestment programme

Earlier in the year, PFI's directors elected to reduce the discount applicable under the Dividend Reinvestment Programme to 2.5%. The Dividend Reinvestment Programme enables shareholders to reinvest their dividends in the company by purchasing additional shares at a discount to market price. In August 2005, 21.0% of PFI shareholders holding 27.8% of shares participated in the Programme.

debt and interest rate management

At 30 June 2005, total bank debt stood at \$82.0 million of which 82.9% was fixed (using swap instruments to minimise interest rate risks) for an average term of 3.05 years.

Since 30 June 2005, the company has taken advantage of low long-term interest rates to further reduce its interest rate exposure. At the time of preparing this report, 92.4% of the company's debt is fixed for an average term of 3.5 years and PFI's cost of funds over all debt is currently 6.95% per annum.

portfolio operations

development

PFI's development programme continues and the first half of the year has seen new building projects started for Harvey Norman, Mondiale, Amcor and Sirva.

As well as attracting new tenants into the portfolio, projects for existing tenants such as Amcor and Sirva continue to play a major part in our development programme.

Low risk property development with tenant precommitment is continuing to generate quality assets with higher rental returns when compared with purchasing similar quality completed projects in the open market.

The two larger projects started in 2004 for W&R Jack and Pharmacy Retailing are now complete and providing returns of 9.0% and 11.6% respectively.

The outlook for continued success in the development arena is positive. PFI is focussed on the marketing of its projects to prospective tenants and negotiations have reached advanced status on two more of its development sites.

In recent years the company has successfully unlocked surplus or under-utilised land from lease agreements and is currently promoting developments on around five hectares of existing land holdings.

2005 development projects announced to date

ADDRESS	TENANT	COST (\$MILLION)	RETURN
17 Allens Road	Harvey Norman	1.54m*	9.0%
9 Ride Way	Amcor Flexibles	0.8m	9.6%
6a Donnor Place	Mondiale	0.8m	11.0%
8 McCormack Place	Sirva	3.65m*	9.0%

*Cost includes land value

acquisitions

PFI continues to search out opportunist type acquisitions, particularly properties with unrealised potential where the company can utilise its leasing and development expertise to increase rental and/or capital value.

Many of PFI's acquisitions since early 2003 fall into this category (Seaview Road, Mt Wellington Highway, Mays Road, McCormack Place) and in March of this year the former PlaceMakers' site on Auckland's Lunn Avenue was purchased for \$4.65 million (previously reported).

PFI has a solid track record in securing this type of acquisition and converting the inherent opportunities to produce higher returns.

leasing

Only two properties have fallen vacant since balance date (one unexpectedly after tenant default). In May, 6a Donnor Place was leased within 22 days of the premises becoming available at a higher rental. Mondiale has taken these premises on a new six-year lease and PFI is improving the existing buildings with additional yards and canopy areas as part of the transaction.

Recently the property at 11 Vestey Drive was leased the day after the previous lease expired. The ASB Bank has leased this 3563m² office/warehouse facility for 10 years.

These two leasing transactions demonstrate that quality properties attract quality tenants. PFI is very pleased to welcome Mondiale and ASB Bank to its portfolio.

2005 – leasing to date

ADDRESSES	TENANT	FLOOR AREA	RENTAL \$ PER ANNUM
6a Donnor Place	Mondiale	6903m ²	\$620,000*
11 Vestey Drive	ASB Bank	3563m ²	\$375,000

*Subject to final measure

rent reviews

Only one review from the 2004 rent review programme (20 leases) is yet to be finalised and last year's rent reviews are adding around \$700,000 to PFI's 2005 revenue.

In addition, the 2005 rent review programme involving 21 leases over 80,000 sqm is well underway and with market rentals continuing to grow, management is anticipating significant rental increases over the \$7.0 million rent roll which is being reviewed this year.

industrial property market/outlook

There have been very few prime investment grade industrial properties offered for sale this year with such properties being tightly held as investors take advantage of the best rental growth the industrial sector has seen in a decade.

Yields are stable and most industrial investment sales continue to show returns between 8.0% and 9.0% on purchase price, depending on location, building quality, lease term and tenant covenant. With good property being tightly held, stable interest rates and rentals trending upwards, we do not anticipate yields to alter significantly in the short to medium term.

The leasing market remains active and steady tenant demand combined with very limited industrial building vacancy continues to push rentals higher.

With a buoyant industrial property market, exciting development opportunities and full rent review programme ahead of us, your directors and management are looking forward to an active and profitable second half of PFI's financial year.

CHAIRMAN Peter Masfen GENERAL MANAGER Ross Blackmore

consolidated statement of financial performance

ALL IN \$000'S	NOTE	UNAUDITED	UNAUDITED	AUDITED
		6 MTHS ENDED 30 JUNE 2005	6 MTHS ENDED 30 JUNE 2004	YEAR ENDED 31 DEC 2004
Revenue				
Rent received		12,714	11,627	23,906
Interest received		40	22	47
Total operating revenue		12,754	11,649	23,953
Less expenses				
Directors' fees		59	58	115
Interest		2,677	2,590	5,191
Management fees – base fee		809	724	1,453
Management fees – performance fee		523	-	482
Administration and other		142	135	373
Direct property related expenses		86	98	440
Total expenditure		4,296	3,605	8,054
Operating Surplus Before Tax		8,458	8,044	15,899
Taxation		1,873	1,629	3,260
Surplus After Taxation		6,585	6,415	12,639
Unrealised revaluations		-	-	29,972
Net Surplus	3	6,585	6,415	42,611

consolidated statement of financial position

ALL IN \$000'S	NOTE	UNAUDITED	UNAUDITED	AUDITED
		AS AT 30 JUNE 2005	AS AT 30 JUNE 2004	YEAR ENDED 31 DEC 2004
Current assets				
Cash and money market deposits		276	247	308
Accounts receivable		546	217	309
Prepayments		99	108	142
Total Current Assets		921	572	759
Non-current assets				
Capital work in progress		6,365	397	717
Investment property		275,744	240,005	271,002
Total Non-Current Assets		282,109	240,402	271,719
Total Assets		283,030	240,974	272,478
Current liabilities				
Accounts payable		2,488	735	1,511
Vendor mortgage		-	500	-
Taxation payable		672	621	36
Total Current Liabilities		3,160	1,856	1,547
Non-Current Liabilities				
Term loans		82,000	74,500	74,500
Total Non-Current Liabilities		82,000	74,500	74,500
Equity				
Share capital	5	153,712	150,479	151,868
Retained earnings		44,158	14,139	44,563
Total Equity and Liabilities		283,030	240,974	272,478