

CONSOLIDATED STATEMENT OF CASH FLOWS

ALL IN \$000'S	NOTE	UNAUDITED 6 MTHS ENDED 30 JUNE 2006	UNAUDITED 6 MTHS ENDED 30 JUNE 2005	AUDITED YEAR ENDED 31 DEC 2005
Cash flows from operating activities				
Receipts from customers		13,799	12,477	26,311
Interest received		44	40	84
Payments to suppliers		(1,777)	(1,435)	(3,229)
Interest on loans		(3,310)	(2,160)	(5,124)
Income tax		(1,049)	(1,237)	(4,297)
Net goods and services tax		(67)	(106)	145
Net cash inflow/(outflow) from operating activities	2	7,640	7,579	13,890
Cash flows from investing activities				
Sale of investment properties		224	-	-
Capitalisation of interest for development properties		(89)	(42)	(139)
Purchase of investment properties (including developments)		(8,849)	(9,923)	(24,333)
Net cash inflow/(outflow) from investing activities		(8,714)	(9,965)	(24,472)
Cash flows from financing activities				
Funds introduced by shareholders	4	1,076	1,844	3,417
Drawdown/(repayment) of borrowings		8,000	7,500	20,500
Dividend paid		(7,578)	(6,990)	(13,108)
Net cash inflow/(outflow) from financing activities		1,498	2,354	10,809
Net increase/(decrease) in cash held		424	(32)	227
Add cash brought forward		535	308	308
Ending cash carried forward		959	276	535

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. STATEMENT OF 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 2005.

The financial statements have been prepared in accordance with accounting policies as stated in the published financial statements to 31 December 2005. 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 2005 have been shown below in brackets.

2. RECONCILIATION OF NET SURPLUS AFTER TAX WITH CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

ALL IN \$000'S	UNAUDITED AS AT 30 JUNE 2006	UNAUDITED AS AT 30 JUNE 2005	AUDITED YEAR ENDED 31 DEC 2005
Net surplus	6,833	6,585	53,449
Add (less) non-cash items			
Unrealised gain on revaluation of investment properties	-	-	(39,933)
Decrease (increase) in receivables	(246)	(237)	(49)
Increase (decrease) in payables	440	658	941
Increase (decrease) in tax liability	350	636	(629)
Increase (decrease) in GST payable	(67)	(106)	145
Other working capital movements	330	43	(34)
Net cash inflow/(outflow) from operating activities	7,640	7,579	13,890

3. LOAN AND INTEREST RATE SWAPS

The company has drawn down \$103,000,000 (2005: \$82,000,000) of the available Bank of New Zealand loan facility of \$120,000,000. The average interest rate applied to this funding is 7.52% (2005: 6.68%) plus banking margin. Through the use of interest rate swaps and forward rate agreements Property For Industry has effectively fixed the interest rate at 6.64%, for 93% of its current debt, for an average of 2.51 years (2005: 6.52% interest, 83% cover, 2.75 years duration).

4. SHARE CAPITAL

During the period the company issued 899,877 shares under the Dividend Reinvestment Scheme for a value of \$1,075,503 (2005: 1,847,908 shares for \$1,843,660).

5. CAPITAL COMMITMENTS

As at 30 June 2006 the Company has \$6,431,000 capital commitments. (2005: \$6,353,000).

6. 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 2006.

The 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 issued.

As a result the actual effect of adopting NZ IFRS may vary from the estimates presented below and 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 2006 (BASED ON REVALUATION AT 31 DECEMBER 2005):

Investment Properties as at 30 June 2006	\$342,707,000
Allowance for disposal costs	\$5,077,000
Investment Properties under NZ IFRS	\$347,784,000

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. On 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 2006 the deferred tax liability in relation to depreciation claimed was \$17,392,266. 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 in excess of cost, as gains on investment properties are not taxable. In the annual accounts to 31 December 2005 PFI indicated that no such deferred tax liability is required to be provided for. This is in accordance with NZ SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets.

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.

As at 30 June 2006 the company had unrealised gain on interest rate swaps of \$935,354. This would result in an asset of \$935,354.

7. EVENTS AFTER BALANCE DATE

On 13 July 2006, the directors of Property For Industry Limited approved the payment of a dividend of \$3,114,470.12 (\$0.01500 cents per share) which was paid on 10 August 2006. No such liability has been recognised in the statement of financial position for 30 June 2006 in accordance with FRS 5. This statement specifies that a dividend cannot be provided for unless it is declared prior to or on balance date.

PROPERTY FOR INDUSTRY

Interim Report 2006

HIGHLIGHTS FIRST HALF 2006

Net profit and dividends continue to

INCREASE

2006 rent review programme in place over a total area of

56,000

sqm

Portfolio occupancy consistently high at

99%

WALT extended to **5.64** years

Three new properties purchased with an approximate total value of

\$11.6M

Four development projects nearing completion at a total cost of

\$7.66M

New tenant enquiry levels remain

STEADY

DIRECTORY

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Anthony Beverley

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Peter Masfen CHAIRMAN

Ross Blackmore GENERAL MANAGER



80 LUNN AVENUE – UNDER CONSTRUCTION

515 MT WELLINGTON HIGHWAY

61-69 PATIKI ROAD

OVERVIEW

More than \$2 million per annum has been added to PFI's rent roll by the rent reviews, acquisitions and development projects announced so far in 2006. This figure will increase with the completion of the 2006 rent review programme.

Although the full benefit of this new income will fall into the 2007 year and beyond, it is nevertheless testament to PFI's ability to continue creating growth in earnings.

The company's financial performance for the year to date has been in line with board and management expectations and ahead of last year.

The acquisitions and capital projects so far this year – with one divestment also taken into account – have taken PFI's portfolio to a total of 56 properties with an approximate value of \$350 million.

Portfolio occupancy remains high at 99% (year-end 2005: 98.0%), while the weighted average lease term (WALT) has been extended to 5.64 years (year-end 2005: 5.27 years).

FINANCIAL PERFORMANCE

New income flowing from PFI's acquisitions, developments and rent reviews delivered a 10.5% increase in rent for the first six months of 2006, to \$14.045 million. PFI is this year receiving rent from three new properties acquired in 2005, as well as four development projects completed during 2005 and early 2006.

Interest costs for the six months were higher at \$3.255 million (2005: \$2.677 million), largely as a result of additional funds drawn down for acquisitions and the development projects now in progress.

PFI's pre-tax profit was up 4.3% on the previous interim period to \$8.825 million, while post-tax profit was 3.8% higher at \$6.833 million. Net tangible assets for the interim period were 115.9 cps (96.4 cps for the previous interim period).

Earnings per share increased 2.5% to 3.30 cents per share.

DIVIDENDS

Shareholders have received a second-quarter dividend of 1.50 cents per share plus imputation credits of 0.40 cps. This matches the first-quarter dividend and for the year to date is an 8.9% gross (or 5.3% net) increase over the 2005 interim period.

DIVIDEND REINVESTMENT SCHEME

PFI operates a dividend reinvestment scheme whereby shareholders can elect to receive dividends in the form of additional shares in lieu of a cash dividend. Shareholders can join the dividend reinvestment scheme at any time.

As at 10 August, 2006, 19.6% of PFI shareholders holding 14.6% of shares were participating in the scheme.

DEBT AND INTEREST RATE MANAGEMENT

At 30 June 2006, total bank debt stood at \$103.0 million of which 93.2% was fixed (using swap instruments to minimise interest rate risks) for an average term of 2.51 years.

PORTFOLIO OPERATIONS

DEVELOPMENT

PFI has four development projects on track to be completed by year end (two announced in 2005 and another two announced this year), which will add more than \$1.0 million per annum to the company's rent roll.

Of particular note is PFI's showroom development at 80 Lunn Avenue which is due for completion in October 2006 (purchased March 2005). This project is fully leased and will generate a development margin for the company.

2006 DEVELOPMENT PROJECTS ANNOUNCED TO DATE

ADDRESS	TENANT	COST \$ MILLION	RETURN ON COST %
3-5 Niall Burgess Road	Electrolux	1.25	10.0
80 Lunn Avenue	Various	8.13*	9.0

*Includes purchase price of \$4.65 million

ACQUISITIONS

Three new properties have been acquired this year. Significantly, all three – including two in the tightly held, premier industrial precinct of Mt Wellington – were bought in off-market transactions. All three neighbour existing PFI properties, and have development potential. These acquisitions underline PFI's ability to continue to source new properties of the very best kind despite a highly-competitive market.

2006 ACQUISITIONS TO DATE

ADDRESS	TENANT	COST \$ MILLION	YIELD %
61-69 Patiki Road	GUD	6.465	10.03
515 Mt Wellington Highway	C-force	2.800	8.3*
174b Marua Road	Waste Management	2.344	5.12**

*Excluding surplus land

**Under-leased property – holding income pending redevelopment

DIVESTMENTS

A property which no longer met PFI's stringent investment criteria, 99-103 Kerrs Road, Manukau, was sold during the period. The sale price of \$5.07 million represents a premium over book value in the region of \$400,000.

RENT REVIEWS

Seventeen of the 26 rent reviews scheduled for the year have been carried out, so far resulting in a total annualised increase of \$445,800, averaging 8.54% or an average annual compound increase of 3.47% over the 2.4 year weighted average term of the review periods.

The majority of the 2006 reviews outlined above were on a fixed (stepped) basis or linked to the Consumer Price Index (CPI). The balance are predominantly set by market rental mechanisms. With market rents having risen by approximately 15% over the past two and a half years, increases well in excess of the CPI are expected from these remaining reviews.

Although no portfolio revaluation has taken place since the end of 2005, PFI's portfolio is about 5% under-leased.

LEASING

PFI has retained six of the nine tenants whose leases were scheduled to expire in 2006, and has also enjoyed success in attracting tenants for other space. Among the leasing highlights, national retailer Hill & Stewart has taken the last remaining unit in 80 Lunn Avenue, Mt Wellington, while 10 Niall Burgess Road was leased in advance of its scheduled vacancy.

2006 LEASING TO DATE

ADDRESS	TENANT	FLOOR AREA SQM	RENTAL \$ PER ANNUM
415 Church Street	Biotrace	129	19,613
322 Rosedale Road	Global Teletalk	700*	146,830
80 Lunn Avenue	Hill & Stewart	595	170,520
10 Niall Burgess Road	On-site Broadcasting	1685	221,349

*Approximately 4,500 sqm remains available in this property

LEASE RESTRUCTURING

Where circumstances change during the term of a lease, PFI responds by restructuring the lease and refurbishing or expanding premises; continuing to meet tenant requirements while also improving returns to the company.

2006 LEASE RESTRUCTURING

ADDRESS	TENANT	YEARS
44 Mandeville Street	Tycos FlowControl	2 ► 9
6 Donnor Place	Wickliffe	5 ► 10

OUTLOOK

Notwithstanding the economic slowdown, PFI's portfolio holds a unique position in a healthy industrial market, with high occupancy and income locked in through long-term leases.

In June 2006, overall Auckland industrial vacancy rates stood at 2.0% (source: CB Richard Ellis research), with vacancy rates less than 1% in a number of key suburbs.

PFI's portfolio continues to enjoy solid tenant demand, while the company's low-risk development pipeline contains a range of promising options (and has again been topped up by the recent acquisitions). Most of the company's properties earmarked for development are producing a holding return pending tenant pre-commitment and the issue of resource consents for new projects.

Your directors and management are confident of delivering a successful conclusion to the 2006 year.

Peter Masfen
CHAIRMAN

Ross Blackmore
GENERAL MANAGER

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

ALL IN \$000'S	NOTE	UNAUDITED 6 MTHS ENDED 30 JUNE 2006	UNAUDITED 6 MTHS ENDED 30 JUNE 2005	AUDITED YEAR ENDED 31 DEC 2005
Revenue				
Rent received		14,045	12,714	26,360
Interest received		44	40	84
Total operating revenue		14,089	12,754	26,444
Less expenses				
Directors' fees		58	59	115
Interest		3,255	2,677	5,702
Management fees – base fee		900	809	1,599
Management fees – incentive fee		630	523	1,112
Administration and other		322	142	354
Direct property related expenses		99	86	378
Total expenditure		5,264	4,296	9,260
Operating surplus before tax		8,825	8,458	17,184
Taxation		1,992	1,873	3,668
Surplus after taxation		6,833	6,585	13,516
Unrealised revaluations		–	–	39,933
Net surplus	2	6,833	6,585	53,449

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

ALL IN \$000'S	NOTE	UNAUDITED 6 MTHS ENDED 30 JUNE 2006	UNAUDITED 6 MTHS ENDED 30 JUNE 2005	AUDITED YEAR ENDED 31 DEC 2005
Equity at start of the period		240,190	196,431	196,431
Net surplus for the period	2	6,833	6,585	53,449
Total recognised revenues and expenses for the period		6,833	6,585	53,449
Contributions from owners	4	1,076	1,844	3,417
Dividends to owners		(7,578)	(6,990)	(13,108)
Equity at end of the period		240,521	197,870	240,190

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ALL IN \$000'S	NOTE	UNAUDITED AS AT 30 JUNE 2006	UNAUDITED AS AT 30 JUNE 2005	AUDITED AS AT 31 DEC 2005
Current assets				
Cash and money market deposits		959	276	535
Accounts receivable		604	546	358
Prepayments		214	99	177
Taxation recoverable		–	–	593
Total current assets		1,777	921	1,663
Non-current assets				
Capital work in progress		2,383	6,365	2,761
Investment property		342,707	275,744	333,363
Total non-current assets		345,090	282,109	336,124
Total assets		346,867	283,030	337,787
Current liabilities				
Accounts payable		2,733	2,488	2,293
Taxation payable		350	672	–
Goods and services tax		237	–	304
Bank loan	3	13,000	–	5,000
Total current liabilities		16,320	3,160	7,597
Non-current Liabilities				
Term loan	3	90,000	82,000	90,000
Total non-current liabilities		90,000	82,000	90,000
Equity				
Share capital	4	156,361	153,712	155,285
Retained earnings		1,749	1,654	2,468
Revaluation reserve		82,437	42,504	82,437
Total equity and liabilities		346,867	283,030	337,787