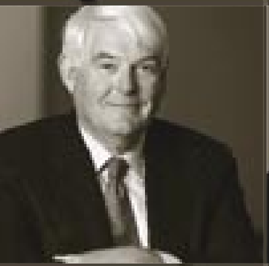
PROPERTY FOR INDUSTRY

INTERIM REPORT 2004

COMPANY REVIEW 2004



CHAIRMAN **PETER MASFEN**

GENERAL MANAGER **ROSS BLACKMORE**

Highlights

- Increased rental revenue and net profit
- Gains in earnings per share and dividends
- Portfolio occupancy maintained at 100%, weighted average lease term (WALT) steady at 5.76 years
- High level of portfolio activity including leasing, tenant retentions, lease restructuring and rent reviews covering more than 90,000 sqm across 19 properties
- Agreement reached for a new $2.5 million office/warehouse development in East Tamaki, Auckland

Financial result

PFI's rentals for the six months to 30 June 2004 were $11.627 million, 7.1% higher than the $10.852 million for the comparable period last year. This was largely attributable to the rents from new properties in the portfolio. In 2003, PFI bought four properties and completed a further three design-build projects.

Additional borrowings to acquire and develop the new properties meant interest costs for the first six months of 2004 were $2.590 million, up from $2.039 million last year.

However, property expenses and management fees were lower and PFI recorded a net profit of $6.415 million, an 11.5% increase on last year. Earnings per share for the period were 3.19 cents per share, 10.8% higher than the 2.88 cents per share in 2003.

Dividends

PFI Shareholders received a second-quarter dividend of 1.4 cents per share with imputation credits of 0.3 cents per share. This is consistent with the first-quarter dividend, meaning Shareholders have so far received dividends of 2.8 cents per share with imputation credits of 0.6 cents per share – an increase of 3.7% on the same period last year.

More than a quarter of PFI Shareholders have now elected to join the dividend reinvestment programme, which provides the option for Shareholders to reinvest their dividends in the Company.

During 2004, PFI's Directors have continued the 5% discount rate to market price for shares issued as part of this programme.

Debt and interest rate risk management

PFI employs a strategy designed to minimise interest costs and interest rate risk by fixing interest costs through the use of swap agreements and other risk management instruments.

The Company took advantage of low interest rates earlier in 2004 to reduce its interest rate exposure (see notes to Consolidated Financial Statements).

Portfolio operations

PFI's portfolio of 51 industrial properties, with a total value of more than $240 million, remains 100% occupied.

Acquisitions

During the period, PFI settled its purchases of properties at 8 McCormack Place, in the Wellington industrial precinct of Ngauranga, and 102 Mays Road, Penrose, Auckland.

PFI has investigated further potential acquisitions in 2004 and to date, has elected not to proceed with these opportunities as the Company's investment criteria could not be met.

Design-build projects

Post-balance date, PFI has committed to a new $2.5 million design-build development for W & R Jack Limited, importers and distributors of woodworking machinery.

W & R Jack has signed an eight-year lease on a 2250 sqm office/warehouse complex to be built on an existing PFI development site at 17 Allens Road, East Tamaki.

Resource consent has been issued for the new development and construction is to commence in November.

Occupancy

At the beginning of 2004, seven leases were due to expire during the year. Of these seven, one property fell vacant and was quickly re-leased (6a Donner Place, Mt Wellington). The other six were either renewed, extended or restructured.

PFI's portfolio activity during the first six months of 2004 is summarised as follows:

Tenant retentions

PROPERTY	TENANT	FLOOR AREA sqm	TRANSACTION TYPE
415 Church Street	Various	520	Retained
16 Mandeville Street	Placemakers	3,200	Retained
15a Vestey Drive	Ingram Micro	2,200	Restructure/retained
417a Church Street	Modempak	2,150	Restructure/retained

Other transactions

PROPERTY	TENANT	FLOOR AREA sqm	TRANSACTION TYPE
511 Mt Wellington Hwy	Vero Insurance	3,200	Lease surrender/new lease
415 Church Street	William Farmer	275	Lease surrender/new lease
6a Donner Place	NZ Express	6,903	New lease
417a Church Street	Bosch Security	400	New lease
2-6 Niall Burgess Drive	NZ Window Shades	6,570	Lease restructure

Market commentary

Investment market

Demand from purchasers for industrial property continues to exceed supply. Quality properties in good locations, with unexpired lease terms between nine and 12 years, are typically selling at yields between 8.0% and 9.0%.

Investor demand is being further strengthened by anticipated rental growth in the industrial property sector.

Leasing market

Tenant demand in the industrial leasing market remains strong. Evidence from within PFI's portfolio includes the rapid leasing of 6a Donner Place (NZ Express) and 417a Church Street (Bosch Security Systems).

Industrial vacancy rates across Auckland are extremely low at 1.9% (CBRE research) and higher rentals are being achieved due to the combination of demand and escalating land values and construction costs. The low vacancy rate has contributed to PFI's high tenant retention rate, and rental growth is reflecting very positively on our 2004 rent review programme. Nineteen of our leases are up for rent review this year and to date, 10 have been actioned, increasing contracted rental revenue by over $300,000 per annum.

Outlook

Although the market is expecting further increases in interest rates, PFI is well hedged and the Company is not materially exposed to any adverse movement in interest rates over the short to medium-term. Recent increases in interest rates have had little effect on industrial property values with a continuation in strong underlying demand.

The New Zealand dollar is forecast to fall in the medium-term and we believe any effects on PFI's tenants caused by any slow-down in the domestic economy are likely to be mitigated by a continuing improvement in the worldwide economy and New Zealand exports.

PFI's strategy continues to be to increase earnings through prudent acquisition and developments where risks are carefully managed. In addition, this year we have been investigating opportunities to increase revenue and net tangible assets from within our existing portfolio.

PFI's track record in converting these new and existing opportunities into new business means that the outlook for the remainder of 2004 is very positive.

CHAIRMAN **PETER MASFEN** GENERAL MANAGER **ROSS BLACKMORE**

DIRECTORY 2004

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Artist's impression of W & R Jack development 17 Allens Road, East Tamaki.

Consolidated statement of financial performance

ALL IN $000'S	NOTE	UNAUDITED 6 MONTHS ENDED 30 JUNE 2004	UNAUDITED 6 MONTHS ENDED 30 JUNE 2003	AUDITED YEAR ENDED 31 DEC 2003
Revenue				
Rent received		11,627	10,852	21,895
Interest received		22	66	119
Total operating revenue		**11,649**	**10,918**	**22,014**
Less expenses				
Directors' fees		58	58	115
Interest		2,590	2,039	4,162
Management fees – base fee		724	677	1,366
Management fees – incentive fee		-	466	658
Administration and other		135	123	318
Direct property related expenses		98	323	755
Total expenditure		**3,605**	**3,686**	**7,374**
Operating surplus before tax		**8,044**	**7,232**	**14,640**
Taxation		1,629	1,479	3,054
Net surplus after taxation		**6,415**	**5,753**	**11,586**
Unrealised revaluations		-	-	7,128
Net surplus	3	**6,415**	**5,753**	**18,714**

Consolidated statement of movements in equity

ALL IN $000'S	UNAUDITED 6 MONTHS ENDED 30 JUNE 2004	UNAUDITED 6 MONTHS ENDED 30 JUNE 2003	AUDITED YEAR ENDED 31 DEC 2003
Equity at start of the period	163,544	154,742	154,742
Net surplus for the period	6,415	5,753	18,714
Total recognised revenues and expenses for the period	**6,415**	**5,753**	**18,714**
Contributions from owners	967	387	1,151
Dividends to owners	(6,308)	(5,654)	(11,063)
Equity at end of the period	**164,618**	**155,228**	**163,544**

Consolidated statement of financial position

ALL IN $000'S	UNAUDITED AS AT 30 JUNE 2004	UNAUDITED AS AT 30 JUNE 2003	AUDITED AS AT 31 DEC 2003
Current assets			
Cash and money market deposits	247	1,134	389
Accounts receivable	217	64	216
Property under agreement of sale	-	2,120	-
Prepayments	108	201	355
Total current assets	**572**	**3,519**	**960**
Non-current assets			
Capital work in progress	397	714	138
Investment property	240,005	208,422	231,454
Total non-current assets	**240,402**	**209,136**	**231,592**
Total assets	**240,974**	**212,655**	**232,552**
Current liabilities			
Accounts payable	735	899	2,171
Vendor mortgage	500	-	500
Taxation payable	621	528	62
Total current liabilities	**1,856**	**1,427**	**2,733**
Non-current liabilities			
Term loans	74,500	56,000	66,275
Total non-current liabilities	**74,500**	**56,000**	**66,275**
Equity			
Share capital	150,479	148,749	149,512
Retained earnings	14,139	6,479	14,032
Total equity and liabilities	**240,974**	**212,655**	**232,552**

Consolidated statement of cash flows

ALL IN $000'S	NOTE	UNAUDITED 6 MONTHS ENDED 30 JUNE 2004	UNAUDITED 6 MONTHS ENDED 30 JUNE 2003	AUDITED YEAR ENDED 31 DEC 2003
Cash flows from operating activities				
Receipts from tenants		11,652	10,920	21,811
Interest received		22	66	119
Payments to suppliers		(2,579)	(2,143)	(3,472)
Interest on loans		(2,374)	(1,642)	(4,177)
Income tax		(1,070)	(1,050)	(3,091)
Net goods & services tax paid		133	(261)	(334)
Net cash inflow/(outflow) from operating activities	3	**5,784**	**5,890**	**10,856**
Cash flows from investing activities				
Sale of investment properties		-	-	2,400
Purchase of investment properties		(8,810)	(2,577)	(16,318)
Net cash inflow/(outflow) from investing activities		**(8,810)**	**(2,577)**	**(13,918)**
Cash flows from financing activities				
Funds introduced by Shareholders		967	387	1,151
Dividend paid		(6,308)	(5,654)	(11,063)
Drawdown/(repayment) of borrowings		8,225	1,000	11,275
Net cash inflow/(outflow) from financing activities		**2,884**	**(4,267)**	**1,363**
Net increase/(decrease) in cash held		**(142)**	**(954)**	**(1,699)**
Add cash brought forward		389	2,088	2,088
Ending cash carried forward		**247**	**1,134**	**389**

Notes to the consolidated financial statements

1. Changes in accounting policies

The financial statements have been prepared in accordance with the accounting policies as stated in the published financial statements of 31 December 2003.

2. Capital commitments

As at 30 June 2004 the Company has no outstanding capital commitments (2003: $10.7 million).

3. Reconciliation of Net Surplus with cash inflow/(outflow) from operating activities

ALL IN $000'S	UNAUDITED 6 MONTHS ENDED 30 JUNE 2004	UNAUDITED 6 MONTHS ENDED 30 JUNE 2003	AUDITED YEAR ENDED 31 DEC 2003
Net surplus	**6,415**	**5,753**	**18,714**
Add (less) non-cash items			
Unrealised gain on revaluation of investment properties	-	-	(7,128)
Movements in working capital			
Decrease (increase) in receivables	24	68	(84)
Increase (decrease) in payables	(1,595)	(127)	(149)
Increase (decrease) in tax liability	559	429	(37)
Increase (decrease) in GST payable	133	(261)	(334)
Other working capital movements	248	28	(126)
Net cash inflow/(outflow) from operating activities	**5,784**	**5,890**	**10,856**

4. Term loan and interest rate swaps

The Company has drawn down $74,500,000 (2003: $56,000,000) of the available Bank of New Zealand loan facility of $90,000,000 (2003: ANZ and National Bank total facilities of $75,000,000). The average interest rate applied to this funding is 5.51% (2003: 5.64%) plus banking margin. Through the use of interest rate swaps and forward rate agreements Property For Industry has effectively fixed the interest rate at 6.58%, for 91% of its current debt, for an average of 2.53 years (2003: 6.88% interest, 80% cover, 2.2 years duration).