INDUS-TRIAL STRE-NGTH.

PROPERTY FOR INDUSTRY LIMITED **ANNUAL REPORT** 31 DECEMBER 2014

PFI

YOUR INDUSTRIAL
PROPERTY EXPERTS

OUT WHERE THE WORK GETS DONE.

People will tell you it's a world away.
You can get lost out there, they'll say...

It's out the back: out where the work gets done. A different world, no question. A bustling, industrial world: an indispensable part of the city, where businesses are making and moving the stuff New Zealand buys and sells.

THIS IS THE ONLY WORLD WE KNOW.

For over twenty years we've specialised in property for industry. We're experts at attracting and retaining high quality industrial tenants by consistently providing the right properties, in the right locations, on the right terms.

PFI put capital to work, out where the work gets done. Out there, we know our way around. When you understand it as we do, it's a rewarding place to do business.

It's by being good at being there that we deliver strong, stable, shareholder returns.

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SNAPSHOT.

AS AT 31 DECEMBER 2014

79
PROPERTIES

134
TENANTS

7.6%
PORTFOLIO YIELD

98.5%
OCCUPANCY

5.26 YEARS
WEIGHTED AVERAGE LEASE TERM

$65.8M
CONTRACT RENT

35.8%
GEARING

$876.0M
PORTFOLIO VALUE

HIGHLIGHTS.

YEAR ENDED 31 DECEMBER 2014

$59.9M
PROFIT AFTER TAX

7.53c
PER SHARE DISTRIBUTABLE PROFIT,
3.7% AHEAD OF THE PRIOR YEAR

5.9%
INCREASE IN NET TANGIBLE ASSETS
TO 130.2 CENTS PER SHARE

14.55c
PER SHARE PROFIT AFTER TAX

7.25c
PER SHARE CASH DIVIDENDS PAID
RELATING TO THE YEAR REPORTED

$36.3M
OR 4.3% PORTFOLIO REVALUATION UPLIFT

24.6%
TOTAL SHAREHOLDER RETURNS
FOR THE YEAR*

67%
OF CONTRACT RENT VARIED, LEASED
OR REVIEWED DURING THE YEAR

* Cash dividends plus change in share price from 1 January 2014 to 31 December 2014, assuming dividends are reinvested.

STRONG, STABLE, RELIABLE.

PFI tenants make and move the goods on which New Zealanders depend. In many cases, the products are not themselves remarkable; the real alchemy is the industrial process: our tenants' ability to reliably repeat a result.

The same is true for PFI. Our purpose is clear: delivering strong, stable, shareholder returns. For us, steadiness is a virtue. We pride ourselves on reliably repeating a result.

And so, in this first full financial year since the Direct Property Fund merger, there are no surprises. The business is strong, the results are stable: profit after tax of 14.55 cents per share and distributable profit for the year of 7.53 cents per share. Total shareholder returns[1], since listing in 1994, stand at 8.98% per annum.

We reliably repeat these results by securing the right industrial properties, in the right locations, and by establishing and extending relationships with superior tenants. The enduring strength and stability of our results derive from our clarity of strategy and our tenacity of execution.

To the uninformed, the processes, products and premises that comprise New Zealand's industrial sector are inconspicuous and unremarkable. Not so for PFI shareholders. They perceive the opportunity and they greatly value PFI's ability to reliably repeat results. For them, we deliver industrial strength.

Peter Masfen
Chairman

1. Cash dividends plus change in share price, assuming dividends are reinvested.

profit after tax of

14.55c

per share

distributable
profit for the year of

7.53c

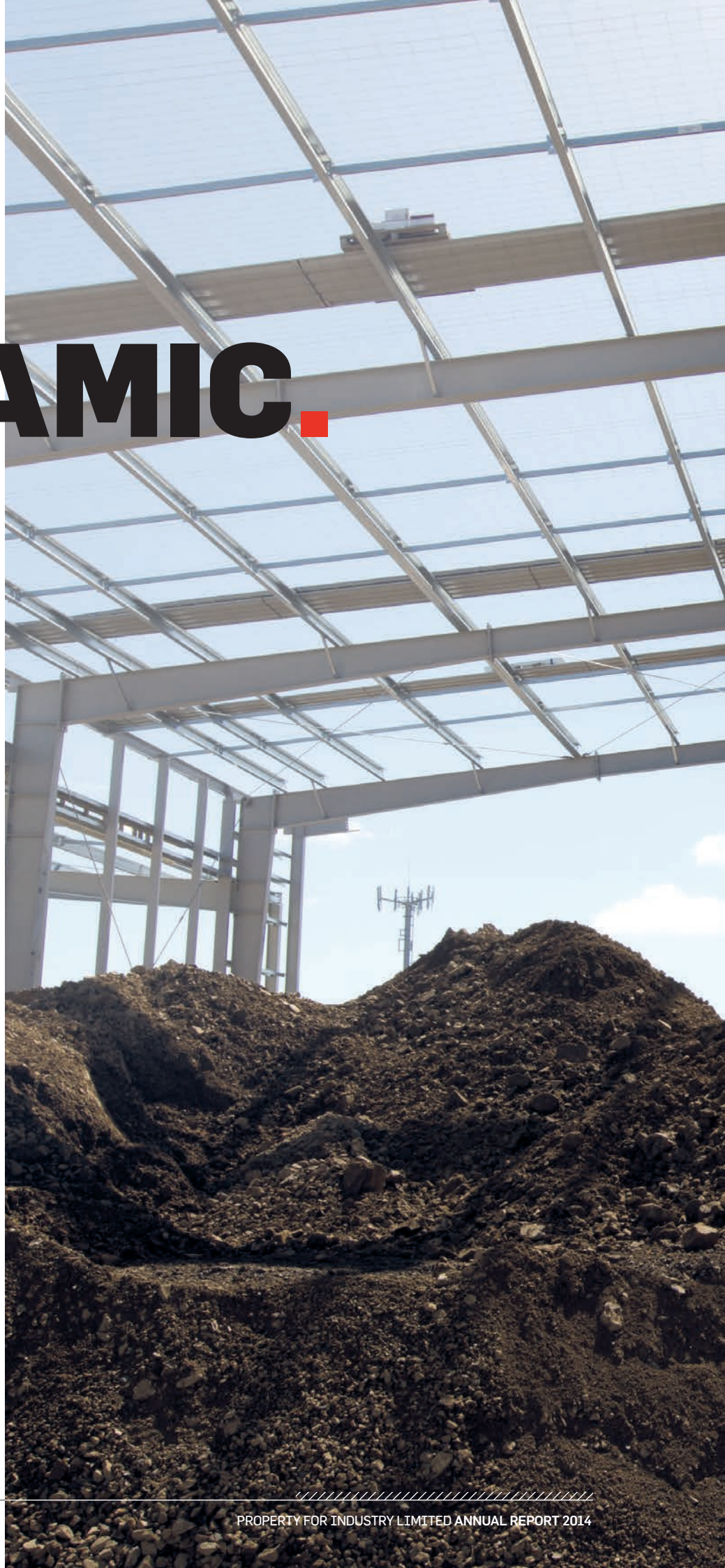
per share

total shareholder returns of

8.98%

per annum since listing
in 1994

BIO DYNAMIC.



Energy: it's something we have in common with Z. Z came to us with a challenge: help them find just the right industrial property, in just the right location and on the right terms. It's been quite a journey – a true partnership – and we finally solved it, at 9 Narek Place.

The lease is signed, construction is underway and Z plans to start producing up to 20 million litres annually of sustainable bio-diesel by the end of 2015.

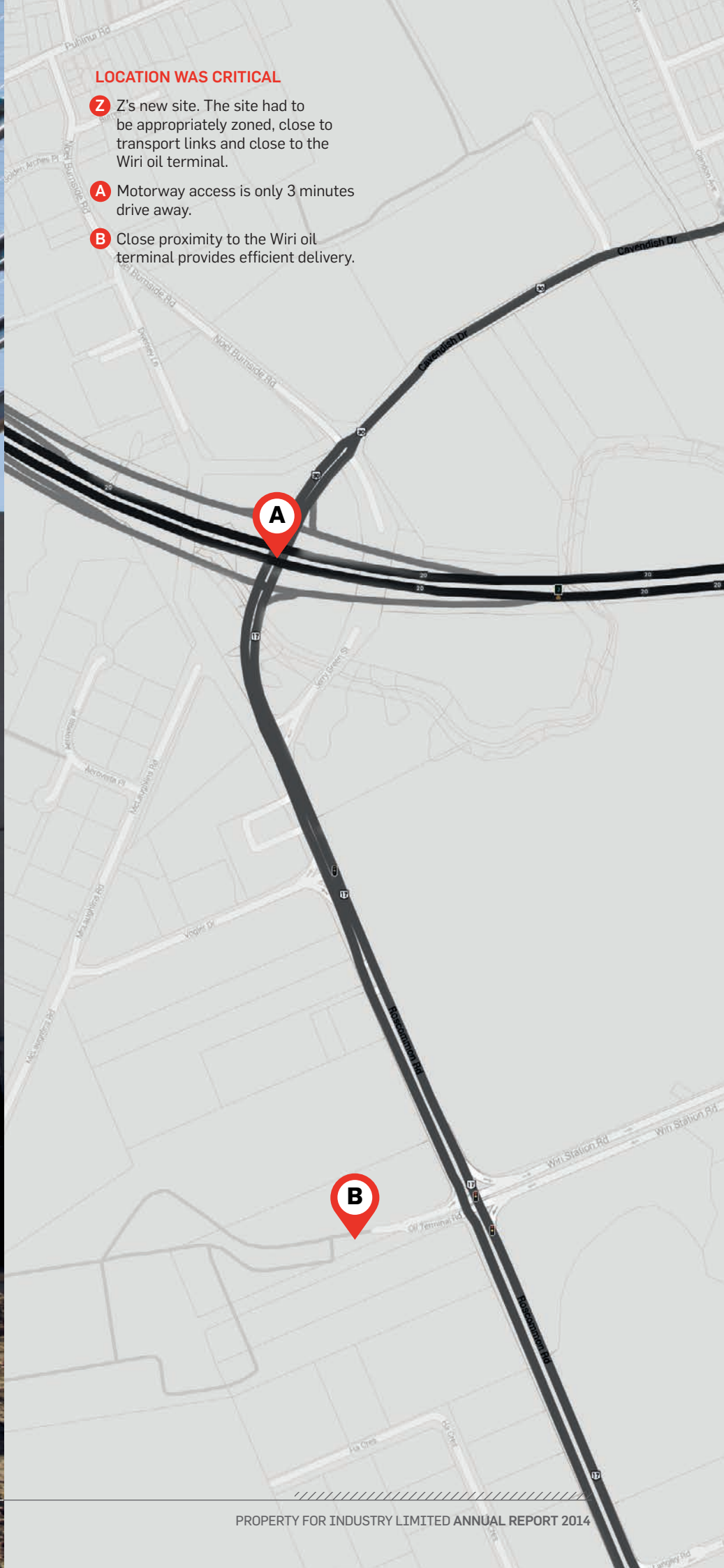

HYUNDAI
M&P
M&P
160LC-7

LOCATION WAS CRITICAL

Z Z's new site. The site had to be appropriately zoned, close to transport links and close to the Wiri oil terminal.

A Motorway access is only 3 minutes drive away.

B Close proximity to the Wiri oil terminal provides efficient delivery.

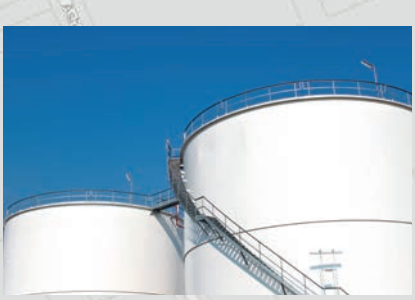


STRATEGY IN ACTION

Z are in the energy business. They are determined to be at the centre of the solution to greenhouse gas emissions, rather than at the centre of the problem. And that's led them to bio-fuel: turning tallow – a meat industry by-product –into a substitute for conventional diesel.

Our role has been finding the right property. Location was critical: the site had to be appropriately zoned for manufacturing fuel, close to transport links to streamline raw materials delivery and close to the Wiri oil terminal for finished product distribution. The site had to be large enough for the building, with generous yard space for a tank farm and vehicles. The building had to accommodate the plant, with room for expansion, but be suitable for future tenants as well, beyond the term of the lease.

By understanding Z's requirements, by being patient, and by working cooperatively and openly, we've achieved a win-win outcome: Z have the right industrial property for their needs and PFI have a long-term, blue-chip tenant.



The Wiri Oil Terminal is only minutes from the site

Delivery of raw materials is made easier by the site's proximity to main motorways

OUT-SOURCED, OF COURSE.

When you're in the outsourcing business, you get the concept. Bunzl Outsourcing Services provide 'everyday essentials' to their customers, enabling them to focus on their core business. No surprise then, that Bunzl are leasing their Auckland premises from industrial property experts PFI.

No surprise, either, that we had the right solution for them. Back in 2008, we designed and built building G at 686 Rosebank Road as a distribution centre for USL. Just a few years later, however, they'd grown much more rapidly than they'd anticipated and needed more space. So, we helped them find new premises.

Bunzl liked 686 Rosebank Road: a good size for them and the location – so close to the motorway – is perfect. We're increasing the office area for them and they've taken a long term lease.

It's outsourcing at work: everyone doing what they do best.


UNZL
PILLAR
PARK
AREA
HAWKER

MANAGER'S REPORT.

The close of 2014 marks the end of the first full financial year following the merger with Direct Property Fund.

The company's financial results show an increase over the prior year in profit after tax, distributable profit, dividends and net tangible assets per share, whilst PFI's large, quality portfolio continues to retain and attract new tenants, producing strong operational results.

PFI's share price also performed well, with total shareholder returns[1] for the year of 24.6% per annum, exceeding both the NZX Property Index return (24.2% per annum) and the NZX 50 Index (17.6% per annum). Total shareholder returns[1] since listing in 1994 were 8.98% per annum as at 31 December 2014, up from 8.60% as at 31 December 2013.

1. Cash dividends plus change in share price, assuming dividends are reinvested.

FINANCIAL PERFORMANCE

Operating revenues for the year of $63.8 million were up $15.7 million or 32.6%, primarily due to the 1 July 2013 merger with Direct Property Fund.

Operating expenses for the year of $26.9 million were up $5.7 million or 27.1%, also due to the merger, but the ratio of operating expenses to operating revenues of 42.2% was in line with the prior year (2013: 44.0%).

The effective current tax rate – that is, the ratio of current taxation to operating earnings – increased from 17.9% to 19.3% due to one-off merger deductions in the prior year.

After allowing for non-operating income and expenses and deferred tax, PFI recorded profit after tax of $59.9 million or 14.55 cents per share (2013: $40.5 million or 12.79 cents per share).

DISTRIBUTABLE PROFIT & DIVIDENDS

PFI recorded distributable profit of 7.53 cents per share, an increase of 0.27 cents per share or 3.7% over the prior year (2013: 7.26 cents per share). Cash dividends for the year totalled 7.25 cents per share, an increase of 0.05 cents per share or 0.7% over the prior year (2013: 7.20 cents per share). The dividend reinvestment scheme was not operated during 2014.

Looking to next year, distributable profit is expected to be approximately 7.35 cents per share and cash dividends are expected to be approximately 7.30 cents per share, subject as always to economic conditions. The operation or suspension of the dividend reinvestment scheme will be assessed on a quarter-by-quarter basis, as the company's capital needs dictate.

BALANCE SHEET & CAPITAL MANAGEMENT

PFI recorded a net portfolio uplift of $36.3 million or 4.3% from independent valuations to $876.0 million, the increase being largely attributable to continued market cap rate compression.

PFI's net tangible assets per share increased by 7.2 cents per share or 5.9% from 123.0 to 130.2 cent per share. This increase was driven by the increase in the fair value of investment properties (+8.8 cps), but was partially offset by the loss on disposals of investment properties (-0.5 cps) and a reduction in the fair value of PFI's derivatives (-1.6 cps). Other changes accounted for the remaining +0.5 cps.

Treasury initiatives, coupled with the ongoing application of PFI's treasury policies, have ensured PFI continues to maintain a strong balance sheet.

PFI's $350 million syndicated bank loan facility was refinanced during the second quarter of 2014. The facility, provided by existing lenders ANZ, BNZ, CBA and Westpac, comprises two $175 million dollar tranches committed for four and five year terms. The refinance extended the average term to expiry from 2.5 years as at 31 December 2013 to 3.8 years as at 31 December 2014. At the same time, the cost of the facilities was reduced.

PFI carries current hedging of $278 million at an average rate of 4.46% for an average duration of 2.5 years. Based on current hedging and debt levels, an average of 77% of the company's debt will be hedged during 2015.

PFI also carries forward starting hedging of $75 million at an average rate of 4.57% for an average duration of 4.4 years, resulting in total hedging of $353 million at an average rate of 4.48% for an average duration of 2.9 years.

When combined with PFI's loan facility this hedging provides the company with a weighted average cost of debt of 5.96% as at 31 December 2014, up from 5.51% as at 31 December 2013, this increase being largely attributable to the rise in floating interest rates during the year.

The company ended the year with gearing at 35.8%, down from 37.4% as at 31 December 2013 and well within PFI's self imposed gearing limit of 40% and bank covenants of 50%. The interest cover ratio was maintained at 3.0 times, in line with the prior year of 3.2 times and well within bank covenants of 2.0 times.

PORTFOLIO PERFORMANCE

During the year PFI sold five non-core properties for combined gross sale proceeds of $26.6 million. $19.0 million of the proceeds were reinvested in the acquisition of a new warehouse at 143 Hutt Park Road, Seaview, Wellington and a design build development at 9 Narek Place, Manukau, Auckland. Further details of this development can be found on pages 8 to 11.

Since year end, a further $10.0 million has been committed to a 10,000 sqm design and build bulk storage warehouse development at PFI's 124 Hewletts Road site in Mount Maunganui. Subject only to consents, construction is programmed to commence in April 2015. Completion is estimated for September 2015, at which time RMD Bulk Storage Limited will commence a 12 year lease term.

This is the second recent development at this property following the completion of the Ballance Agri-Nutrients development in 2013. With an estimated return of 10% on incremental capital invested this project provides accretive returns to the company.

More than 103,000 square metres of PFI's existing portfolio was leased during the year to 32 new and existing tenants for an average term of 5.1 years, including a new lease to Bunzl Outsourcing Services at PFI's 686 Rosebank Road, Avondale, Auckland property. Further details of this lease can be found on pages 12 and 13.

The company also completed rent reviews on 68 leases, representing more than $34.6 million of contract rent, during the year. These reviews resulted in an average annual uplift of 1.8%, with fixed or index-linked review mechanisms, a feature of more than 65% of PFI's leases, contributing much of the growth.

PFI's near term leasing outlook remains positive: the company's vacancy at 31 December 2014 stood at just 1.5% and only 6.2% of contract rent is due to expire during 2015. The largest single vacant property represents just 0.7% of rent, and the largest single 2015 expiry represents just 1.6% of rent.

PORTFOLIO SNAPSHOT

AS AT 31 DECEMBER 2014

5.26 YEARS

WEIGHTED AVERAGE TERM LEASE

compared to 5.31 years in December 2013

134

TENANTS

compared to 136 in December 2013

98.5%

OCCUPANCY

compared to 97.1% in December 2013

$65.8M

CONTRACT RENT

compared to $65.4m in December 2013

79

PROPERTIES

compared to 83 in December 2013

MARKET, OUTLOOK AND STRATEGY

There was solid leasing demand during 2014, a continuing trend over the last two years and reflected in total occupancy across the portfolio ending the year at a robust 98.5%. This compares favourably with the wider industrial market with CBRE Research reporting that vacancy rates across the Auckland industrial market particularly, where 86% of PFI's assets are located, declined by a third in 2014 from 3.7% in December 2013 to 2.5% as at December 2014.

Coupled with the increased demand from occupiers PFI continued to benefit from the strong investor sentiment toward industrial investment property in 2014. This confidence in the sector has flowed through to market capitalisation rates firming markedly for investment grade industrial property in 2014. Yields firmed across the whole industrial sector but this was particularly evident for prime property with long term leases and inherent rental growth during the term. This view is supported by a recent Colliers International research report that states average prime industrial yields pushed below 7% at the end of 2014, the first time in their 20-year historical time series of reviewing performance of the sector.

The opportunity to acquire prime industrial property accretive to shareholder returns looks a continuing challenge in 2015 given the dearth of investment grade property available and the competition to acquire, particularly from private investors and owner occupiers. However, consistent with PFI's strategy of managing the company's lease expiries and vacancy, we continue to review the portfolio and seek to take advantage of the buoyancy in the market to recycle capital out of non-core assets, reposition existing properties and undertake development on expansion land within the portfolio when an accretive opportunity presents.

We thank you for your continued support and look forward to seeing you at the annual meeting in May. A webcast will be available on PFI's website if you cannot attend the meeting in person.

Nick Cobham
General Manager (Joint)

Simon Woodhams
General Manager (Joint)

COMPREHENSIVE INCOME

FOR THE YEAR ENDED (AUDITED, $000)

	31 December 2014	31 December 2013
Total operating revenue	63,772	48,080
Interest expense and bank fees	(18,230)	(12,869)
Management fees	(5,604)	(3,785)
Non-recoverable property costs	(1,888)	(2,271)
Other expenses	(1,172)	(853)
Business combination transaction costs	-	(1,380)
Total operating expenses	(26,894)	(21,158)
Total operating earnings	36,878	26,922
Fair value gain on investment properties	36,286	12,326
Material damage insurance income	1,204	-
(Loss) / gain on disposals of investment properties	(2,061)	47
Fair value (loss) / gain on derivative financial instruments	(6,431)	8,080
Total non operating income and expenses	28,998	20,453
Profit before taxation	65,876	47,375
Current taxation	(7,113)	(4,828)
Deferred taxation	1,114	(2,035)
Total taxation	(5,999)	(6,863)
Profit for the year attributable to the shareholders of PFI	59,877	40,512

DISTRIBUTABLE PROFIT

FOR THE YEAR ENDED (AUDITED, $000)

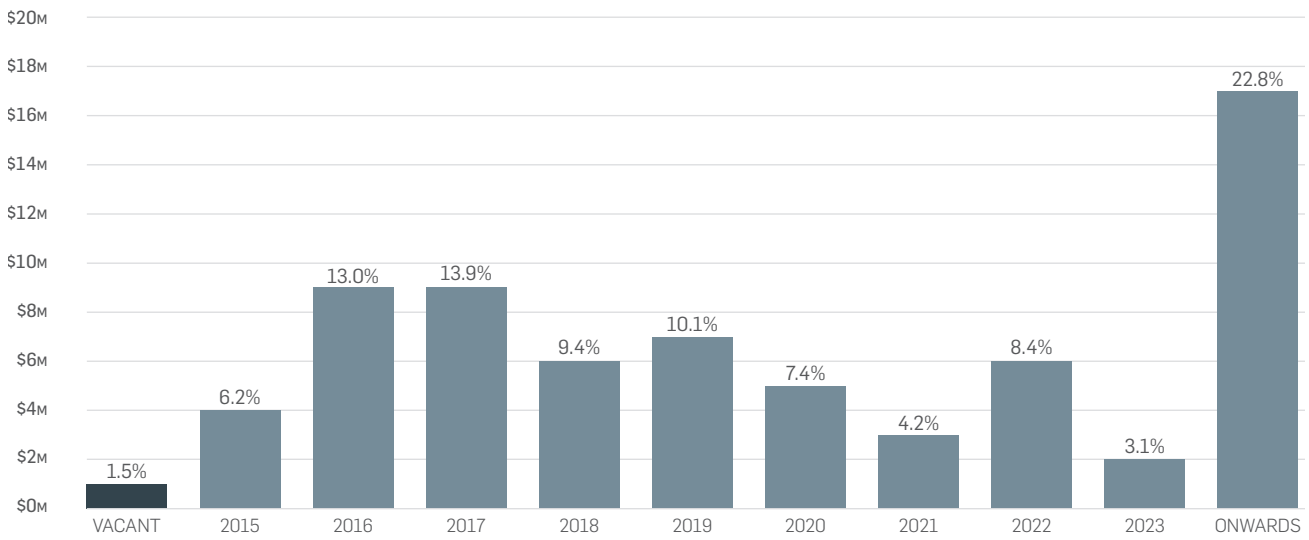
	31 December 2014	31 December 2013
Profit for the year attributable to the shareholders of PFI	59,877	40,512
Adjusted for:		
Fair value gain on investment properties	(36,286)	(12,326)
Material damage insurance income	(1,204)	-
Loss / (gain) on disposals of investment properties	2,061	(47)
Tax on depreciation claw-back on disposals of inv. properties	281	-
Fair value loss / (gain) on derivative financial instruments	6,431	(8,080)
Deferred taxation	(1,114)	2,035
Movement in fixed rent reviews	455	(413)
Incentive fees net of tax	511	259
Business combination transaction costs	-	1,380
Other	(12)	(12)
Distributable profit	31,000	23,308
Distributable profit per share (cents)	7.53	7.26
Dividends paid relating to year reported (cents)	7.25	7.20
Pay-out ratio	96%	99%

PORTFOLIO SUMMARY.

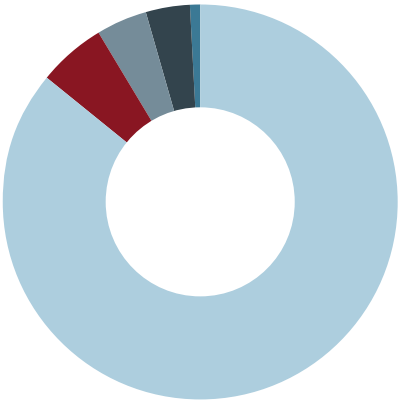
TOP TEN TENANTS BY RENTAL INCOME

	TENANT	NO. OF PROPERTIES	ANNUAL RENT ($000'S)	% OF TOTAL
1	Fisher & Paykel Appliances	2	5,543	8.4%
2	Fletcher Building Products	4	2,910	4.4%
3	Ebos	3	2,810	4.3%
4	Goodman Fielder	2	2,394	3.6%
5	DHL Supply Chain	2	2,341	3.6%
6	Jacobs	1	2,339	3.6%
7	Wickliffe	2	1,777	2.7%
8	Southern Spars	1	1,481	2.3%
9	Brambles	2	1,403	2.1%
10	Nestle	1	1,402	2.1%
	Subtotal	**20**	**24,400**	**37.1%**
	Total	**79**	**65,814**	**100.0%**

LEASE EXPIRY BY RENTAL INCOME

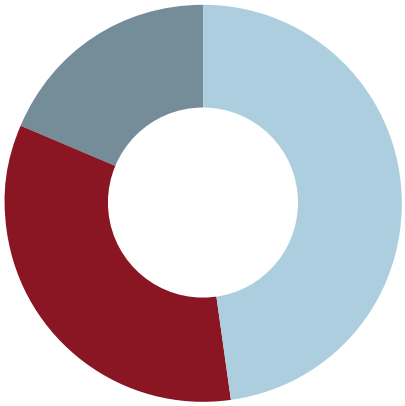


INVESTMENT PORTFOLIO BY VALUE – NEW ZEALAND



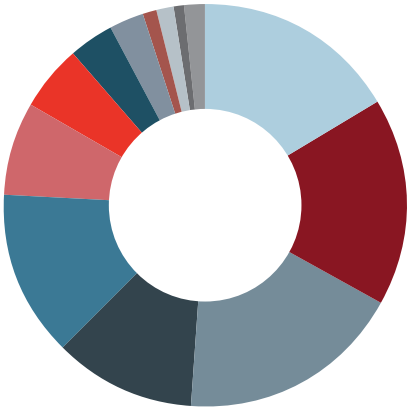
Auckland	86.1%
Wellington	5.3%
Mt Maunganui	4.3%
Christchurch	3.6%
Hamilton	0.7%

RENT REVIEW TYPE BY RENTAL INCOME



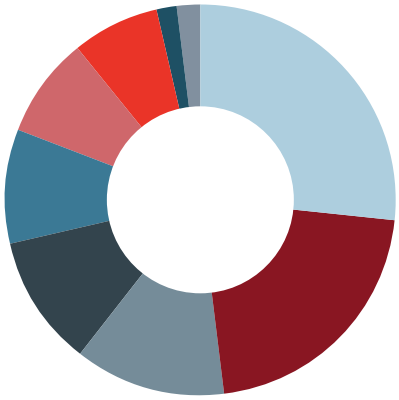
CPI	47.8%
Market	33.7%
Fixed	18.5%

TENANT INDUSTRY BY RENTAL INCOME



Transport & Storage	16.5%
Other Manufacturing	16.7%
Machinery & Equipment Manufacturing	18.1%
Property & Business Services	11.3%
Food Manufacturing	13.5%
Construction	7.5%
Wood & Paper Manufacturing	5.2%
Accommodation & Restaurants	3.6%
Textiles & Clothing	2.8%
Health & Community Services	1.0%
Education	1.4%
Government	0.9%
Vacant	1.5%

INVESTMENT PORTFOLIO BY VALUE – AUCKLAND



Mt Wellington	26.9%
East Tamaki	21.3%
Parnell	12.4%
Avondale	10.9%
Manukau	9.6%
North Shore	8.2%
Penrose	7.1%
Swanson	1.9%
Mangere	1.7%

BOARD OF DIRECTORS.

1. PETER MASFEN

BOARD CHAIRMAN
INDEPENDENT DIRECTOR
Director since 2002, last re-elected June 2013

Peter 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 and 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.

He is also a trustee of King's School, Auckland and Woolf Fisher Trust.

2. ANTHONY BEVERLEY

AUDIT AND RISK COMMITTEE CHAIRMAN
NOMINATION COMMITTEE CHAIRMAN
INDEPENDENT DIRECTOR
Director since 2001, last re-elected May 2012

Anthony joined the PFI board in 2001.

He is a professional director and consultant, consulting to both the private and public sector on a wide variety of property matters. Anthony's other directorships include Marlborough Lines Limited, Arvida Group Limited, Harbour Quays A1 Limited, Harbour Quays D4 Limited and Harbour Quays F1F2 Limited.

He was formerly head of property for AMP Capital Investors (New Zealand) Limited and is a Chartered Fellow of the New Zealand Institute of Directors, a Fellow of the New Zealand Institute of Valuers, a Fellow of the Property Institute of New Zealand, and a Fellow of the Financial Services Institute of Australasia.

3. HUMPHRY ROLLESTON

INDEPENDENT DIRECTOR
Director since 1994, last re-elected May 2014

Humphry joined the PFI board in 1994 when the company listed.

He is chairman of the private merchant bank, Murray & Co and tourism operator ANZCRO. He is also a director of other NZX listed companies SKY Network Television Limited, Mercer Group Limited and Infratil Limited.

He also owns the investment company Asset Management Limited which has interests in Matrix Security, Stray, Spaceships, McRaes Global and Media Metro.

4. GREGORY REIDY

DIRECTOR REPRESENTING THE MANAGER
Director since January 2012, last re-elected May 2012

Greg has been a director of PFI since 2012 and is Managing Director of PFIM Limited, the manager of PFI. He is also Managing Director of McDougall Reidy & Co Limited, which among other things, has been subcontracted by PFIM Limited to undertake property and administrative management services for PFI.

He has a background in property investment, funds management and development, with almost 20 years' experience in the management, ownership and development of industrial, commercial and retail property. Greg is also a shareholder of PFIM Limited (the Manager of PFI) and McDougall Reidy & Co Limited.

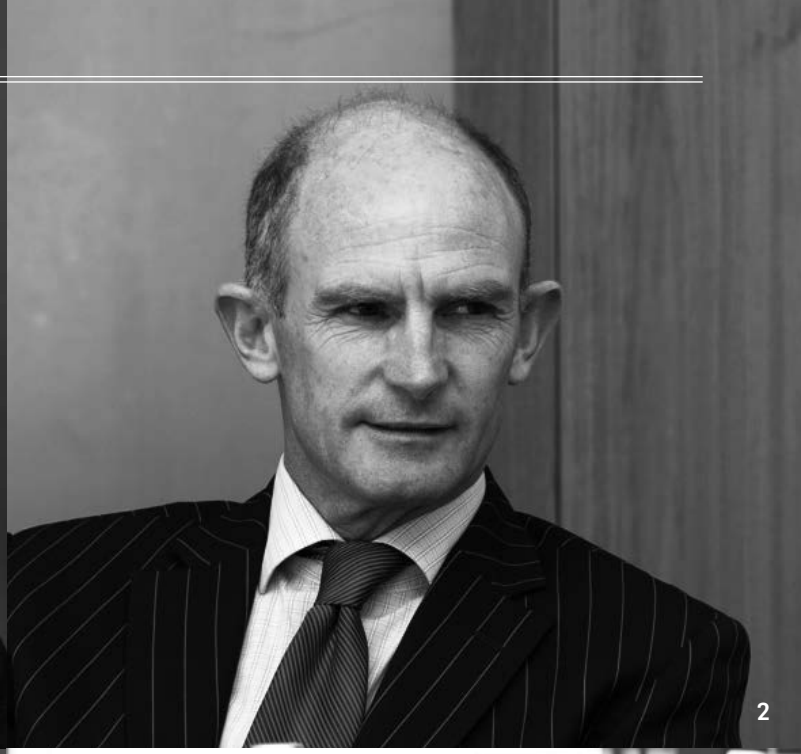
5. JOHN WALLER

INDEPENDENT DIRECTOR
Director since July 2013, last re-elected May 2014

John joined the PFI board in July 2013 as part of the merger with DPF.

He is on a number of boards, including the Bank of New Zealand (Chairman), National Australia Bank, Fonterra Cooperative Group, SKY Network Television Limited and Haydn & Rollett Limited. Prior to these appointments, John was a partner at PwC for over 20 years.


1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5

MANAGEMENT TEAM.

NICK COBHAM
GENERAL MANAGER (JOINT)

Nick is General Manager (Joint) of PFI. Prior to the merger with DPF, he was General Manager of PFI. He also has been Development Manager for McDougall Reidy & Co Limited, managing industrial and commercial development projects. He has previous experience in the listed property sector with Capital Properties New Zealand and has a background in property valuation and funds management. Nick is a registered valuer and a graduate of Massey University. Nick is also a shareholder of PFIM Limited (the Manager of PFI) and McDougall Reidy & Co Limited.

SIMON WOODHAMS
GENERAL MANAGER (JOINT)

Simon is General Manager (Joint) of PFI. Prior to the merger with DPF, he was General Manager of DPF, having joined McDougall Reidy & Co Limited as Development Manager in 2005. Prior to joining Simon spent seven years in Tokyo and London working in the financial and banking markets. He is a graduate of Canterbury University where he completed his Bachelor of Commerce majoring in Accounting and Marketing. Simon is also a shareholder of PFIM Limited (the Manager of PFI) and McDougall Reidy & Co Limited.

CRAIG PEIRCE
CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Craig is Chief Financial Officer and Company Secretary of PFI and McDougall Reidy & Co Limited.

Craig joined McDougall Reidy & Co Limited as Chief Financial Officer and Company Secretary in 2009. He has more than 12 years' property industry experience having previously spent six years in London working in property funds management at LaSalle Investment Management and General Electric Real Estate. Craig is a graduate of Auckland University and is a Chartered Accountant, having trained as an auditor at PwC.

COMPANY STRUCTURE.

PFI is a publicly listed company established in 1994 and managed by PFIM Limited. The manager reports to the board of directors and is responsible for all investment, property and administration management functions. The manager is paid a management fee for carrying out these responsibilities. The board currently has five directors, four of whom are independent and one representing the manager.

MANAGEMENT STRUCTURE

PFI is managed by PFIM Limited, a private company owned by interests associated with McDougall Reidy & Co Limited. PFIM Limited has appointed McDougall Reidy & Co Limited as its subcontractor to provide the property and administrative management services required under the PFI management agreement.

PFI's management fee structure is 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 as:

- 0.725% of total tangible assets under management up to $425 million;
- 0.450% of total tangible assets under management above $425 million and below $775 million; and
- 0.350% of total tangible assets under management above $775 million

The incentive fee is calculated as 10% of the change in shareholder wealth above 10% per annum (2.5% per quarter) and under 15% per annum (3.75% per quarter), calculated and payable on a quarterly basis.

The fee is calculated as 10% of the actual increase in shareholder returns which is above 2.5% in a quarter. Where shareholder returns exceed 3.75% in a quarter, no payment is due for the actual amount of the increase above 3.75% but the amount of the increase above 3.75% can be carried forward and added to the calculation of shareholder returns in later quarters. However, if shareholder returns are less than 2.5% in a quarter, the deficit can also be carried forward and subtracted from the calculation of shareholder returns in later quarters.

STRATEGIC OBJECTIVE

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

INVESTMENT STRATEGY

PFI's investment strategy is to:

- Invest in quality industrial property in New Zealand's main urban centres;
- Invest predominantly in multipurpose, rather than specialised, properties that are occupied by a balanced spread of tenants;
- 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 attributes:
  - 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 borrowings limited to 40% of investment property values.
- To provide a risk-averse approach to acquisition, asset management and capital management, distributing 95 - 100% of distributable profit as dividends.

CORPORATE GOVERNANCE.

PRINCIPAL ACTIVITY

Property For Industry Limited (the Company) is a listed industrial property investment company. Property For Industry Limited and its subsidiary, P.F.I. Property No. 1 Limited (together the Group), invest solely in New Zealand. There has not been any change in the nature of the Company's or Group's business in the year ended 31 December 2014, nor in the classes of business in which the Company has an interest.

GOVERNANCE

The Board of Property For Industry Limited is committed to the highest standards of business behaviour and accountability. The Board regularly reviews and assesses the Group'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 the group's governance framework, the Board has developed a Corporate Governance Manual (the manual) that forms the Group's corporate governance framework. The manual was reviewed by the Board during 2013 and the Audit and Risk Committee Charter and Continuous Disclosure Policy are currently being reviewed. The manual includes a Code of Ethics, that describes the Board's role and responsibilities and regulates Board procedures. It incorporates the NZX Main Board Listing Rules relating to corporate governance and the recommendations of the NZX Corporate Governance Best Practice Code.

A copy of the manual is available on the website at www.propertyforindustry.co.nz and includes:

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

COMPLIANCE WITH NZX REQUIREMENTS

The NZX Main Board Listing Rules require that companies such as PFI disclose the ways in which their corporate governance processes materially differ from the processes prescribed by the NZX Corporate Governance Best Practice Code. PFI considers that it materially complies with the NZX Corporate Governance Best Practice Code except as stated under Board Committees in respect of a remuneration committee.

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 Property For Industry Limited's directors, managers, representatives and subsidiary by which they are expected to conduct their duties by facilitating behaviour that is consistent with PFI's business standards.

BOARD COMPOSITION, APPOINTMENTS, INDEPENDENCE & OPERATION

The constitution allows for between three and eight directors. As at 31 December 2014 there were five directors: four of whom are independent and one representing the manager. It is Company's policy that there should always be a majority of independent directors.

The directors of the Company who held office during the 12 months to 31 December 2014, their status, date of appointment and meeting attendances follows:

DIRECTOR	STATUS	DATE OF APPOINTMENT	DATE OF RESIGNATION	MEETINGS ATTENDED (SIX MEETINGS HELD)
Peter Masfen	Board Chairman Independent director	17 May 2002		6
Anthony Beverley	Audit and Risk Committee Chairman Nomination Committee Chairman Independent director	2 July 2001		6
Arthur Young[1]	Non-executive director	1 July 2013	16 May 2014	3
Humphry Rolleston	Independent director	5 July 1994		6
John Waller	Independent director	1 July 2013		6
Gregory Reidy	Director representing the manager	20 January 2012		6

1. Three board meetings were held prior to Arthur Young's retirement on 16 May 2014.

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

All the above are also directors of the company's subsidiary, P.F.I. Property No. 1 Limited.

BOARD COMMITTEES

Audit & Risk Committee

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

The manager is responsible for attending to the financial and reporting needs of the company. Amongst other things, the Audit and Risk Committee meets twice a year (or more frequently if required) with the Group's auditor to review the outcome of the interim review (30 June) and annual audit (31 December).

At 31 December 2014, the members of the Audit and Risk Committee were Anthony Beverley (Chairman of the Audit and Risk Committee), John Waller and Peter Masfen. All were members of the committee at all times during 2014 and all attended the three meetings of the Audit and Risk Committee held during 2014.

Nomination Committee

The board has established a Nomination Committee in accordance with the NZX Corporate Governance Best Practice Code. The Nomination Committee has developed a written charter that outlines the committee's authority, duties, responsibilities and relationship with the board. The board is required to regularly review the performance of the Nomination Committee.

At reporting date, the members of the Nomination Committee were Anthony Beverley (Chairman of the Nomination Committee) and John Waller. This committee did not meet during the year.

Other Committees

The board has not established a remuneration committee. This differs from the NZX Corporate Governance Best Practice Code recommendation that the board establishes this committee to recommend remuneration packages for directors to the shareholders. However, the board has developed a remuneration policy which forms part of the Corporate Governance Manual and is intended to guide the directors in considering remuneration for directors. The board considers that the policies are consistent with best practice governance standards and this approach is appropriate, given that, as a result of its external management arrangements, PFI does not have its own employees for whom remuneration needs to be considered.

BOARD CHARTER

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

- Establishes a clear framework for oversight and management of PFI's operations and for defining the respective roles and responsibilities of the Board and the manager;
- Structures itself to be effective in discharging its responsibilities and duties;
- Sets standards of behaviour expected of the company's managers and representatives;
- Safeguards the integrity of the company's financial reporting;
- Ensures timely and balanced disclosure;
- Respects and facilitates the rights of shareholders;
- Recognises and manages risk;
- Encourages board and management effectiveness;
- Remunerates fairly and responsibly;
- Recognises 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 performance and 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 and divestment proposals, capital expenditure and the review of the performance of the manager on a regular 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.

GENDER COMPOSITION OF DIRECTORS AND OFFICERS

The breakdown of the gender composition of PFI's directors for the previous two financial years is as follows:

FINANCIAL YEAR	MALE	FEMALE
Year ending 31 December 2013	6	0
Year ending 31 December 2014	5	0

The company does not have any employees and therefore has no officers.

DIRECTORS' INTERESTS REGISTER

During the year the board authorised the renewal of the directors' and officers' insurance cover as at 30 June 2014 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.

As permitted by the company's constitution and the Companies Act 1993, the company has also executed a deed indemnifying its directors against potential liabilities and costs they may incur for acts or omissions in their capacity as directors of the Company and its subsidiary.

Please refer to the Dealings In Company Securities section below for information regarding the securities dealings of the Company's directors and officers.

No director has sought authorisation to use company information.

There were no interest register entries recorded for the company and its subsidiary for the year ended 31 December 2014.

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.

Other than noted in this report, neither the company nor its subsidiary have provided any other benefits to a director for services as a director or in any other capacity.

Neither the Company nor its subsidiary have made loans to a director.

Neither the Company nor its subsidiary have guaranteed any debts incurred by a director.

DIRECTOR	ROLE	FEES PAID 2014 $000	FEES PAID 2013 $000
Peter Masfen	Board Chairman Independent director	86	80
Anthony Beverley	Audit and Risk Committee Chairman Nomination Committee Chairman Independent director	61	50
Arthur Young[1]	Non-executive director	19	25
Humphry Rolleston	Independent director	56	50
John Waller[2]	Independent director	56	25
Gregory Reidy[3]	Director representing the manager	-	-
Total		**278**	**230**

1. Arthur Young joined the Board on 1 July 2013 and retired from the Board on 16 May 2014.
2. John Waller joined the Board on 1 July 2013.
3. No directors' remuneration was paid to Gregory Reidy due to him being a director representing the manager.

DEALINGS IN COMPANY SECURITIES

The Board has developed a policy that deals with directors, managers and representatives trading in Property For Industry Limited's securities and the disclosure requirements. This policy forms part of the Corporate Governance Manual.

Details of directors' dealings in the company's shares since 1 January 2014 are as follows:

DIRECTOR	NO. OF SHARES ACQUIRED / (DISPOSED)	CONSIDERATION PER SHARE	DATE
Arthur Young (non-beneficial)	(3,500,000)	$1.270	28 February 2014
Arthur Young (non-beneficial)	(616,090)	$1.280	28 May 2014
Arthur Young (non-beneficial)	616,090	$1.280	28 May 2014
Arthur Young (non-beneficial)	(616,090)	$1.280	5 August 2014
Arthur Young (non-beneficial)	431,263	$1.340	7 August 2014
Arthur Young (non-beneficial)	24,644	$1.360	7 August 2014
Arthur Young (non-beneficial)	(24,644)	$1.360	7 August 2014
Arthur Young (non-beneficial)	17,951	$1.340	12 August 2014
Arthur Young (non-beneficial)	(49,288)	$1.395	3 September 2014

Details of directors' interests in the company's shares as at 31 December 2014 are as follows:

DIRECTOR	BENEFICIAL / NON-BENEFICIAL	NUMBER OF SHARES
Peter Masfen	Beneficial Non-beneficial	4,000,905 250,000
Humphry Rolleston	Non-beneficial	119,057
John Waller	Beneficial	1,045,628
Gregory Reidy	Beneficial	3,375,804

EMPLOYEE REMUNERATION

Neither the Company nor its subsidiary has any employees, accordingly no employees, or former employees, of the Company or its subsidiary received remuneration or other benefits in their capacity as employees, the value of which was or exceeded $100,000 per annum.

DONATIONS

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

AUDITOR'S FEES

PricewaterhouseCoopers (PwC) were appointed as Auditors of the Company on 28 May 2014 replacing BDO Auckland (BDO). Fees paid to each firm are as follows:

	2014 $000	2013 $000
Audit of annual financial statements - BDO	3	74
Review of management fee calculation - BDO	1	5
Other assurance services - BDO	-	12
Audit of share registry - Grant Thornton	3	3
Audit of annual financial statements - PwC	94	-
Review of interim financial statements - PwC	27	-
Review of management fee calculation - PwC	3	-
Total	**131**	**94**

SUBSTANTIAL SHAREHOLDER NOTICES

As at 31 December 2014 the total number of ordinary shares on issue was 411,502,391. The company has only ordinary shares on issue.

SECURITY HOLDER	NUMBER OF SHARES	HOLDING %	DATE OF NOTICE
Arthur Young	20,707,148	5.03	7 August 2014
ANZ New Zealand Investments Limited	20,600,222	5.01	12 June 2014

Arthur Young's shareholding has since increased to 21,107,074 or 5.13%. However, an updated substantial shareholder notice has not been filed as Arthur Young's shareholding has not moved by more than 1% (as a percentage of the total number of PFI shares on issue) since the substantial shareholder notice was filed on 7 August 2014.

SHAREHOLDER STATISTICS.

20 LARGEST REGISTERED SHAREHOLDERS

AS AT 28 FEBRUARY 2015

	HOLDER	HOLDING	HOLDING %
1	FNZ Custodians Limited	23,394,737	5.69
2	BNP Paribas Nominees (NZ) Limited - NZCSD	14,991,302	3.64
3	Custodial Services Limited (A/c 3)	12,994,784	3.16
4	National Nominees New Zealand Limited - NZCSD	12,609,254	3.06
5	Accident Compensation Corporation - NZCSD	8,396,623	2.04
6	MFL Mutual Fund Limited - NZCSD	7,922,026	1.93
7	ANZ Wholesale Trans-Tasman Property Securities - NZCSD	7,475,240	1.82
8	Investment Custodial Services Limited (A/c C)	7,121,025	1.73
9	Messrs. Wildermoth, Wilson, Young and Spence	6,086,970	1.48
10	ANZ Wholesale Property Securities - NZCSD	5,791,344	1.41
11	Citibank Nominees (New Zealand) Limited - NZCSD	5,770,557	1.40
12	Guardian Nominees No 2 Limited - WPAC Wholesale Property Trust - NZCSD	5,656,027	1.37
13	Mr. Mckee, Ms. Mckee and NWM Trustees 120 Limited	5,138,191	1.25
14	Custodial Services Limited (A/c 2)	4,676,800	1.14
15	Carlaw Heritage Trust Inc	4,115,481	1.00
16	Masfen Securities Limited	4,000,905	0.97
17	Messrs. Young and Wadams	3,684,218	0.90
18	Private Nominees Limited - NZCSD	3,677,701	0.89
19	Heatherfield Investments Limited	3,552,988	0.86
20	PFIM Limited	3,375,804	0.82
	Shares held by top 20 shareholders	**150,431,977**	**36.56**
	Balance of shares	261,070,414	63.44
	Total of issued shares	**411,502,391**	**100.00**

SHAREHOLDER SPREAD

AS AT 28 FEBRUARY 2015

ORDINARY SHARES	NUMBER OF HOLDERS	HOLDING	HOLDING %
Up to 4,999	834	2,150,973	0.52
5,000 - 9,999	979	7,034,108	1.71
10,000 - 49,999	2,498	52,593,227	12.78
50,000 - 99,999	376	25,372,237	6.17
100,000 - 499,999	279	55,176,608	13.41
500,000 and above	111	269,175,238	65.41
Total	**5,077**	**411,502,391**	**100.00**

GEOGRAPHICAL SPREAD

AS AT 28 FEBRUARY 2015

ORDINARY SHARES	HOLDING	HOLDING %
Auckland & Northern Region	239,692,284	58.25
Hamilton & Surrounding Districts	83,131,196	20.20
Wellington & Central Districts	55,139,298	13.40
Dunedin & Southland	16,729,914	4.07
Nelson, Marlborough & Christchurch	15,269,070	3.71
Overseas	1,357,563	0.33
Unknown	183,066	0.04
Total	**411,502,391**	**100.00**

FIVE YEAR PERFORMANCE SUMMARY.

YEAR ENDED 31 DECEMBER	2014	2013	2012	2011	2010
ALL VALUES IN $M UNLESS OTHERWISE NOTED					
FINANCIAL PERFORMANCE					
Operating revenue	63.8	48.1	29.4	30.9	32.5
Operating expenses	(26.9)	(21.2)	(12.2)	(11.6)	(12.1)
Total operating earnings	36.9	26.9	17.2	19.3	20.4
Non operating income and expenses	29.0	20.5	14.7	(0.3)	(4.4)
Profit before taxation	65.9	47.4	31.9	19.0	16.0
Total taxation expense	(6.0)	(6.9)	(5.0)	(2.6)	(6.1)
Total comprehensive income after tax	59.9	40.5	26.9	16.4	9.9
Weighted average number of ordinary shares ('000 shares)	411,502	316,742	220,018	218,721	215,990
Per share profit after tax (cents per share)	14.55	12.79	12.24	7.47	4.64
DISTRIBUTIONS					
Total comprehensive income after tax	59.9	40.5	26.9	16.4	9.9
Distributable profit adjustments	(28.9)	(17.2)	(12.3)	(0.6)	8.3
Distributable profit	31.0	23.3	14.6	15.8	18.2
Weighted average number of ordinary shares ('000 shares)	411,502	316,742	220,018	218,721	215,990
Distributable profit per share (cents per share)	7.53	7.26	6.64	7.21	8.43
Gross dividends paid relating to the year reported (cents per share)	9.04	8.69	8.21	8.65	8.25
Cash dividends paid relating to the year reported (cents per share)	7.25	7.20	6.60	7.18	7.18
Pay-out ratio (%)	96.2%	99.2%	99.6%	99.2%	85.2%
FINANCIAL POSITION					
Investment properties	876.0	841.8	382.2	355.9	352.6
Goodwill	29.1	29.1	-	-	-
Other assets	1.8	6.1	2.4	2.6	7.9
Total assets	906.9	877.0	384.6	358.5	360.5
Borrowings	312.8	314.6	114.2	102.5	111.2
Other liabilities	29.1	27.2	20.3	18.7	15.2
Total liabilities	341.9	341.8	134.5	121.2	126.4
Total equity	565.0	535.2	250.1	237.3	234.1
Closing shares on issue ('000 shares)	411,502	411,502	220,411	219,011	216,759
Net tangible (excluding goodwill) assets (cents per share)	130.2	123.0	113.5	108.4	108.0
Gearing (%)	35.8%	37.4%	29.9%	28.8%	31.5%
PROPERTY PORTFOLIO METRICS					
Number of properties (#)	79	83	50	49	52
Number of tenants (#)	134	136	86	89	100
Contract rent	65.8	65.4	32.6	30.2	31.6
Occupancy (%)	98.5%	97.1%	97.4%	95.6%	99.5%
Net lettable area including yard (sqm)	626,755	627,575	379,306	324,094	333,624
Weighted average lease term (years)	5.26	5.31	4.80	4.17	4.08
Capitalisation rate (%)	7.2%	7.8%	8.5%	8.5%	9.0%

FINA-
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MENTS.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

		GROUP		PARENT	
ALL VALUES IN $000'S	NOTE	2014	2013	2014	2013
OPERATING REVENUE					
Rental and management fee income	4	63,678	48,045	-	-
Business interruption insurance income	5	81	23	-	-
Interest income		13	12	13	12
Dividend income	13	-	-	6,725	-
Total operating revenue		63,772	48,080	6,738	12
OPERATING EXPENSES					
Audit fees and other fees paid to auditors	6	(131)	(94)	(131)	(94)
Directors' fees		(278)	(230)	(278)	(230)
Interest expense and bank fees		(18,230)	(12,869)	(10)	(4,183)
Management fees	24	(5,604)	(3,785)	(5,604)	(3,785)
Non-recoverable property costs	7	(1,888)	(2,271)	-	-
Other expenses		(763)	(529)	(994)	(737)
Business combination transaction costs	23	-	(1,380)	-	(1,380)
Total operating expenses		(26,894)	(21,158)	(7,017)	(10,409)
Total operating earnings		36,878	26,922	(279)	(10,397)
NON-OPERATING INCOME AND EXPENSES					
Fair value gain on investment properties	12	36,286	12,326	-	-
Material damage insurance income	5	1,204	-	-	-
(Loss) / gain on disposals of investment properties	12	(2,061)	47	-	-
Fair value (loss) / gain on derivative financial instruments		(6,431)	8,080	-	3,018
Total non-operating income and expenses		28,998	20,453	-	3,018
Profit / (loss) before taxation		65,876	47,375	(279)	(7,379)
INCOME TAX (EXPENSE) / BENEFIT					
Current taxation	9	(7,113)	(4,828)	1,967	2,556
Deferred taxation	9	1,114	(2,035)	-	(851)
Total taxation		(5,999)	(6,863)	1,967	1,705
Profit / (loss) for the year attributable to the shareholders of the Company		59,877	40,512	1,688	(5,674)
Other comprehensive income after income tax		-	-	-	-
Total comprehensive income / (loss) for the year attributable to the shareholders of the Company	8	59,877	40,512	1,688	(5,674)
Basic and diluted earnings per share (cents)	10	14.55	12.79		

The accompanying notes form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

		GROUP		
ALL VALUES IN $000'S	NOTE	Share Capital	Retained Earnings	Total Equity
BALANCE AT 1 JANUARY 2013		171,471	78,613	250,084
Total comprehensive income		-	40,512	40,512
Shares issued via business combination	23	263,515	-	263,515
Dividends to shareholders	8	-	(18,938)	(18,938)
Balance at 31 December 2013		434,986	100,187	535,173
BALANCE AT 1 JANUARY 2014		434,986	100,187	535,173
Total comprehensive income		-	59,877	59,877
Dividends to shareholders	8	-	(30,080)	(30,080)
Balance at 31 December 2014		434,986	129,984	564,970

		PARENT		
ALL VALUES IN $000'S	NOTE	Share Capital	Accumulated Losses	Total Equity
BALANCE AT 1 JANUARY 2013		171,471	(175,973)	(4,502)
Total comprehensive loss		-	(5,674)	(5,674)
Shares issued via business combination	23	263,515	-	263,515
Dividends to shareholders	8	-	(18,938)	(18,938)
Balance at 31 December 2013		434,986	(200,585)	234,401
BALANCE AT 1 JANUARY 2014		434,986	(200,585)	234,401
Total comprehensive income		-	1,688	1,688
Dividends to shareholders	8	-	(30,080)	(30,080)
Balance at 31 December 2014		434,986	(228,977)	206,009

The accompanying notes form part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

		GROUP		PARENT	
ALL VALUES IN $000'S	NOTE	2014	2013	2014	2013
CURRENT ASSETS					
Cash and cash equivalents		596	1,348	596	1,348
Accounts receivable, prepayments and other assets	11	3,215	3,179	197	236
Investment properties held for sale	12	-	2,141	-	-
Derivative financial instruments	16	2	-	-	-
Loans to subsidiaries	13	-	-	134,796	363,812
Total current assets		3,813	6,668	135,589	365,396
NON-CURRENT ASSETS					
Derivative financial instruments	16	54	3,269	-	-
Prepayments and other assets	11	7,563	7,881	-	-
Investment properties	12	866,363	830,040	-	-
Investment in subsidiaries	13	-	-	71,628	71,628
Goodwill	14	29,086	29,086	-	-
Total non-current assets		903,066	870,276	71,628	71,628
Total assets		906,879	876,944	207,217	437,024
CURRENT LIABILITIES					
Accounts payable, accruals and other liabilities	15	9,487	9,751	1,208	790
Taxation payable		1,832	1,732	-	-
Derivative financial instruments	16	164	-	-	-
Loans from subsidiaries	13	-	-	-	201,833
Total current liabilities		11,483	11,483	1,208	202,623
NON-CURRENT LIABILITIES					
Borrowings	17	312,797	314,599	-	-
Derivative financial instruments	16	6,339	3,285	-	-
Deferred tax liabilities	9	11,290	12,404	-	-
Total non-current liabilities		330,426	330,288	-	-
Total liabilities		341,909	341,771	1,208	202,623
Net assets	19	564,970	535,173	206,009	234,401
EQUITY					
Share capital	18	434,986	434,986	434,986	434,986
Retained earnings / (accumulated losses)		129,984	100,187	(228,977)	(200,585)
Total equity		564,970	535,173	206,009	234,401

The Board of Property For Industry Limited authorised these financial statements for issue on 17 February 2015.

Peter Masfen
Chairman

Anthony Beverley
Chairman, Audit and Risk Committee

The accompanying notes form part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

		GROUP		PARENT	
ALL VALUES IN $000'S	NOTE	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES					
Property income received		63,696	48,567	-	-
Business interruption and material damage insurance income		1,285	-	-	-
Dividend income received		-	-	6,725	-
Net GST received / (paid)		231	331	19	(140)
Interest income received		13	12	13	12
Income tax (paid) / received		(7,013)	(4,187)	1,967	2,556
Payments to suppliers		(8,376)	(9,302)	(6,569)	(5,851)
Interest and other finance costs paid		(19,521)	(10,260)	(10)	(4,004)
Net cash flows from operating activities	20	30,315	25,161	2,145	(7,427)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales of investment properties	12	26,589	51	-	-
Receipts from subsidiaries in respect of subsidiary loans		-	-	27,183	141,730
Capitalisation of interest on development properties		(37)	(8)	-	-
Purchases and development of investment properties		(25,849)	(23,691)	-	-
Cash acquired from business combination	23	-	12	-	12
Net cash flows from investing activities		703	(23,636)	27,183	141,742
CASH FLOWS FROM FINANCING ACTIVITIES					
Net (repayments) / proceeds of borrowings		(1,690)	18,590	-	(114,200)
Dividends to shareholders		(30,080)	(18,938)	(30,080)	(18,938)
Net cash flows from financing activities		(31,770)	(348)	(30,080)	(133,138)
Net (decrease) / increase in cash and cash equivalents		(752)	1,177	(752)	1,177
Cash and cash equivalents at beginning of year		1,348	171	1,348	171
Cash and cash equivalents at end of year		596	1,348	596	1,348

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. GENERAL INFORMATION

These financial statements presented are those of Property For Industry Limited (the Company) and its subsidiary P.F.I. Property No. 1 Limited (PFI No1) (together, the Group). The Company is a limited liability company incorporated in New Zealand and is registered under the New Zealand Companies Act 1993. The Company is an issuer for the purposes of Financial Reporting Act 1993 and these financial statements are prepared in accordance with the Financial Reporting Act 1993. The Company is registered on the New Zealand Stock Exchange (NZSX: PFI).

The Company and Group are profit oriented businesses. The Company's and Group's principal activity is property investment and management. These financial statements were approved by the Board of Directors on 17 February 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied by all members of the Group to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the historical cost basis except for investment properties and derivative financial instruments which are measured at fair value. All financial information is presented in New Zealand dollars and has been rounded to the nearest thousand.

(b) Basis of consolidation

The consolidated financial statements include the Parent and its subsidiaries. Control exists when the Parent is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intercompany transactions are eliminated on consolidation. They are deconsolidated from the date that control ceases. Investments in subsidiaries are carried at cost less impairment losses in the separate accounts of the parent.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a controlled entity is the fair value of the assets transferred and the liabilities incurred. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the fair value of the net assets of the controlled entity acquired, the difference is recognised directly in the Statement of Comprehensive Income.

(c) Changes to accounting policies

The group has adopted the following new standards and amendments to existing standards, with an initial application date of 1 January 2014:

- NZ IAS 32 'Offsetting Financial Assets and Financial Liabilities'. This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the Statement of Financial Position. This has no impact on the Group as all financial instruments are recognised separately on the Statement of Financial Position and the Group does not intend to settle on a net basis.
- NZ IAS 36 'Recoverable amount disclosures for Non-Financial Assets'. This amendment has made small changes to the disclosures required by NZ IAS 36, Impairment of assets when recoverable amount is determined based on fair value less costs of disposal. This has no impact on the Group as no asset has been impaired and no impairment has been reversed during the period.

(d) New standards, amendments and interpretations effective from 1 January 2015

New standards, amendments and interpretations have been published that are not yet effective have not been early adopted by the Group. Those which may be relevant to the Group are explained below:

- NZ IFRS 9 'Financial Instruments'. This standard will eventually replace NZ IAS 39 Financial Instruments - Recognition and Measurement. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2018, the Group has not yet assessed the impact of this standard.
- NZ IFRS 15 'Revenue from Contracts with Customers'. This standard addresses the recognition of revenue from contracts with customers. It specifies the revenue recognition criteria governing the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2017, the Group has not yet assessed the impact of this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue

Rental income from investment properties is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease. Lease incentives are capitalised within prepayments and other assets in the Statement of Financial Position and amortised on a straight line basis in the Statement of Comprehensive Income over the length of the lease to which they relate, as a reduction to rental income.

Interest income is recognised using the effective interest method.

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

Dividend income is recognised in the Statement of Comprehensive Income when the Company's right to receive the dividend is established.

(f) Operating expenses

All operating expenses are recognised on an accruals basis.

(g) Interest expense and bank fees

Interest expense and bank fees comprise interest and bank fees payable on funds borrowed and derivative financial instruments. These are recognised as they accrue in the Statement of Comprehensive Income, using the effective interest method except in relation to qualifying assets as defined in NZ IAS 23 (Borrowing Costs), where it is included in the cost of investment properties under construction.

Where borrowing costs are specific to a particular investment property under construction, the rate at which borrowing costs are capitalised is determined by reference to the weighted average borrowing costs of the Group and the average level of borrowings by the Group.

(h) Taxation

The Company and Group are a listed Portfolio Investment Entity (PIE) for the purposes of the Income Tax Act 2007. Tax is accounted for on a consolidated Group basis and the Group is required to pay tax to the Inland Revenue as required by the Income Tax Act 2007. Income tax expense comprises current and deferred tax and is recognised in the Statement of Comprehensive Income for the year.

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 provided 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 accumulated depreciation claimed on investment properties, where applicable;
- The tax asset / liability arising from the allowance for impairment;
- The tax liability arising from certain prepayments and other assets; and
- 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:

- Temporary differences on 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;
- Temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

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 tax arising from distribution of dividends is recognised at the same time as the liability to pay the dividend is recognised.

(i) Investment properties

Investment properties are held to earn rental income and for long term capital appreciation. After initial recognition at cost including directly attributable acquisition costs, investment properties are measured at fair value, on the basis of valuations made by independent valuers on an annual basis. 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.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investment properties (continued)

The fair value of investment property reflects the Directors' assessment of highest and best use of each property and amongst 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. Refer to note 12(i) for detail of valuation approach applied.

No depreciation or amortisation is provided for on investment properties. However, for tax purposes, depreciation is claimed on building fit-out and a deferred tax liability is recognised where the building component of the registered valuation exceeds the tax book value of the building.

Investment properties under construction are carried at cost until it is possible to reliably determine their fair value, from which point they are carried at fair value.

Investment properties are classified as assets held for sale when their carrying amount is to be recovered through a sale transaction and a sale is considered highly probable.

Gains or losses on the disposal of investment properties are recognised in the Statement of Comprehensive Income in the period in which the risks and rewards of the investment property have been fully transferred to the vendor.

Borrowing costs are capitalised if they are directly attributable to the acquisition or construction of a qualifying property. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs will continue until the asset is substantially ready for its intended use. Refer to note 2(g) for detail of the applicable interest rate applied.

(j) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired. Goodwill is measured at cost less accumulated impairment losses.

(k) Share capital

All shares are recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(l) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, loans to subsidiaries, accounts payable, accruals and other liabilities and borrowings. Non-derivative financial assets are classified as loans and receivables. These are recognised initially at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost net of impairment losses.

Non-derivative financial liabilities are classified as other financial liabilities at amortised cost. These 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, directly attributable fees, costs, discounts and premiums are spread over the expected life of the instrument.

The carrying values of all balance sheet financial instruments approximate their estimated fair value. For disclosure purposes, the fair values of accounts receivable, loans to subsidiaries, accounts payable, borrowings, accruals and other liabilities are estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date. As accounts receivable and accounts payable, accruals and other liabilities are short term in nature as at reporting date, the carrying value is considered to be a reasonable approximation of fair value.

(ii) Derivative financial instruments

The Group is exposed to changes in interest rates and uses derivative financial instruments, principally interest rate swaps, to mitigate this risk. The Group does not apply hedge accounting. Derivative financial instruments are entered into to economically hedge risk exposure.

Such derivative financial 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 at each reporting date. Transaction costs are expensed on initial recognition and recognised in the Statement of Comprehensive Income. The fair value of derivative financial instruments is based on valuations prepared by independent treasury advisers and is the estimated amount that the Group would receive or pay to terminate the derivative contract at reporting date, taking into account current interest rates and creditworthiness of the derivative contract counterparties.

(iii) De-recognition of financial instruments

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

The Group de-recognises financial liabilities when the Group's obligations are discharged, cancelled, or they expire.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment

(i) 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.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics, including any similar significant financial assets assessed individually that were not considered to be individually impaired. All impairment losses are recognised in the Statement of Comprehensive Income.

In assessing collective impairment the Group uses objective evidence such as tenants in receivership or liquidation, tenants in default or other such information. This is adjusted for Management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historic trend.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the Statement of Comprehensive Income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill is tested annually for any impairment or more frequently if events or changes in circumstances indicate potential impairment.

The recoverable amount of an asset or cash generating unit (CGU) is the greater of its value in use and its fair value less costs of disposal. For the purpose of impairment testing, assets are grouped together into CGUs, being the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

If a CGU is impaired, the impairment is first assigned to any goodwill associated with the CGU and then to the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill cannot be reversed. For other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

(n) Goods and services tax

These financial statements have been prepared on a goods and services tax (GST) exclusive basis except for the accounts receivable and accounts payable balances which are stated inclusive of GST.

(o) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values. The Board and Management have overall responsibility for overseeing all significant fair value measurements and transfers between levels of the fair value hierarchy. The Groups policy is to recognise transfers into and out of fair value levels as of the date of transfer or change in circumstances that caused the transfer.

The Board and Management review significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the Board and Management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of NZ IFRS, including the level of the fair value hierarchy in which such valuations should be classified.

The Group classifies its fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: 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); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Cash and cash equivalents

Cash and cash equivalents include cash at bank and call deposits which are readily converted to cash.

(q) Comparatives

The Group has made the following reclassifications to assist users in assessing the performance and position of the Group:

- A portion of 31 December 2013 prepayments and other assets has been reclassified within the Statement of Financial Position as the Board and Management have determined that this better reflects the recovery of the asset. This has resulted in $3,187,000 in the Group being reclassified from current assets to non-current assets. There has been no change to the measurement of prepayments in its totality.

The Parent has made the following reclassification to assist users in assessing the position of the Parent:

- A portion of 31 December 2013 loans to subsidiaries have been reclassified within the Statement of Financial Position as the Board and Management have determined that this better reflects the nature of the asset. This has resulted in $201,833,000 in the Parent being reclassified from current assets to current liabilities.

Neither of the above reclassifications impacted the Statement of Financial Position as at 31 December 2012.

In addition certain comparatives have been reclassified in the comparatives to aid comparability with the Statement of Financial Position as 31 December 2014.

3. CRITICAL JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, the Board and Management continually evaluates judgements, estimates and assumptions that may have an impact on the Group. All judgements, estimates and assumptions are believed to be reasonable based on the current circumstances available to the Board and Management. Actual results may differ from the judgements, estimates and assumptions made by the Board and Management. The significant judgements, estimates and assumptions made in the preparation of these financial statements are outlined below:

(a) Investment properties

The fair value of investment properties are determined from valuations prepared by independent valuers using level 3 valuation techniques. The critical estimates and assumptions applied are detailed in note 12.

(b) Derivative financial instruments

The fair value of derivative financial instruments are determined from valuations prepared by independent treasury advisers using level 2 valuation techniques. The approach and interest rates used in the valuations are set out in note 16.

(c) Deferred tax

Deferred tax is provided on the accumulated depreciation claimed on the building component of investment properties. Investment properties are valued each year by independent valuers (as outlined in note 12). These values include an allocation of the valuation between the land and building components. The calculation of deferred tax on depreciation recovered places reliance on the land and building split provided by the valuers.

(d) Impairment of goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment. Goodwill is tested annually for any impairment or more frequently if events or changes in circumstances indicate potential impairment. Details of the key assumptions and approach are set out in note 14.

4. RENTAL AND MANAGEMENT FEE INCOME

	GROUP	
ALL VALUES IN $000'S	2014	2013
Gross rental receipts	63,838	47,807
Management fee income	270	218
Amortisation of capitalised lease incentives	(466)	(1,047)
Rental income during rent free periods	491	436
Fixed rental income adjustment	(455)	631
Total rental and management fee income	63,678	48,045

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

	GROUP	
ALL VALUES IN $000'S	2014	2013
Within one year	64,356	63,090
After one year but not more than five years	181,436	182,115
More than five years	105,409	111,833
Total	351,201	357,038

5. INSURANCE INCOME

On 25 August 2013, 7 Carmont Place, Mt Wellington sustained fire damage. The fire has resulted in a business interruption (loss of rents claim) and a material damage claim.

	GROUP	
ALL VALUES IN $000'S	2014	2013
Business interruption insurance income	81	23
Material damage insurance income	1,204	-
Total insurance income	1,285	23

6. AUDIT FEES AND OTHER FEES PAID TO AUDITORS

PricewaterhouseCoopers (PwC) were appointed as Auditors of the Company on 28 May 2014 replacing BDO Auckland (BDO). Fees paid to each firm are as follows:

	GROUP & PARENT	
ALL VALUES IN $000'S	2014	2013
Audit of annual financial statements - BDO	(3)	(74)
Review of management fee calculation - BDO	(1)	(5)
Other assurance services - BDO	-	(12)
Audit of share registry - Grant Thornton	(3)	(3)
Audit of annual financial statements - PwC	(94)	-
Review of interim financial statements - PwC	(27)	-
Review of management fee calculation - PwC	(3)	-
Total audit fees and other fees paid to auditors	(131)	(94)

7. NON-RECOVERABLE PROPERTY COSTS

Other non-recoverable costs represents property maintenance and operating expenses not recoverable from tenants, property valuation fees and property leasing costs.

	GROUP	
ALL VALUES IN $000'S	2014	2013
Service charge expenses	(7,425)	(5,814)
Service charge income recovered from tenants	7,425	5,814
Other non-recoverable property costs	(1,888)	(2,271)
Total non-recoverable property costs	(1,888)	(2,271)

8. RELATIONSHIP OF TOTAL COMPREHENSIVE INCOME TO DIVIDENDS PAID

The Group's dividend policy is to distribute between 95% to 100% of its annual distributable profit, subject to the approval of the Board of Directors. Distributable profit is determined as total comprehensive income for the year (as determined in accordance with NZ IFRS for the period) adjusted for fair value gains or losses on investment properties, material damage insurance income, gains or losses on disposal of investment properties (net of tax on depreciation claw-back), fair value gains or losses on derivative financial instruments, deferred tax, additional revenue booked as a result of fixed rental review accounting entries, incentive fees net of tax, business combination transaction costs, and other one off items.

	GROUP	
ALL VALUES IN $000'S UNLESS NOTED	2014	2013
Total comprehensive income for the year attributable to the shareholders of the Company	59,877	40,512
Adjusted for:		
Fair value gain on investment properties	(36,286)	(12,326)
Material damage insurance income	(1,204)	-
Loss / (gain) on disposals of investment properties	2,061	(47)
Tax on depreciation claw-back on disposals of investment properties	281	-
Fair value loss / (gain) on derivative financial instruments	6,431	(8,080)
Deferred taxation	(1,114)	2,035
Movement in fixed rent reviews	455	(413)
Incentive fees net of tax	511	259
Business combination transaction costs	-	1,380
Other[1]	(12)	(12)
Distributable profit	31,000	23,308
Analysed as:		
6 months ended 30 June		
Distributable profit	15,631	7,588
Weighted average number of ordinary shares (shares)	411,502,391	220,410,728
Distributable profit per share (cents)	3.80	3.44
6 months ended 31 December		
Distributable profit	15,369	15,720
Weighted average number of ordinary shares (shares)	411,502,391	411,502,391
Distributable profit per share (cents)	3.73	3.82

1 Other comprises the current tax impact of an adjustment to one of the Company's derivative financial instruments.

8. RELATIONSHIP OF TOTAL COMPREHENSIVE INCOME TO DIVIDENDS PAID (CONTINUED)

			GROUP	
ALL VALUES IN $000'S UNLESS NOTED	Payment date	Dividend per share (cents)	2014	2013
Distributable profit per share (cents)			7.53	7.26
1st quarter FYE 31/12/13 net dividend[2]	Paid 29/5/2013	1.700	-	3,747
2nd quarter FYE 31/12/13 net dividend[2]	Paid 28/6/2013	1.700	-	3,747
3rd quarter FYE 31/12/13 net dividend[2]	Paid 27/11/2013	1.790	-	7,366
4th quarter FYE 31/12/13 net dividend[3]	Paid 12/3/2014	2.010	-	8,271
1st quarter FYE 31/12/14 net dividend[3]	Paid 28/5/2014	1.750	7,201	-
2nd quarter FYE 31/12/14 net dividend[3]	Paid 5/9/2014	1.750	7,201	-
3rd quarter FYE 31/12/14 net dividend[3]	Paid 26/11/2014	1.800	7,407	-
4th quarter FYE 31/12/14 net dividend[4]		1.950	8,024	-
Dividends paid relating to the year reported			29,833	23,131
Pay-out ratio			96%	99%

2 Dividends paid in the year ended 31 December 2013 totalled $18,938,000 as per the Statement of Changes in Equity and consisted of the 1st through 3rd quarter for year ended 31/12/13 dividends (above), plus the 4th quarter for year ended 31/12/12 dividend paid 13 March 2013 of $4,078,000.

3 Dividends paid in the year ended 31 December 2014 totalled $30,080,000 as per the Statement of Changes in Equity and consisted of the 4th quarter for year ended 31/12/13 through 3rd quarter for year ended 31/12/14 dividends (above).

4 The 4th quarter for year ended 31/12/14 dividend is due to be paid on 12 March 2015, refer note 29.

9. TAXATION

(i) Reconciliation of accounting profit before income tax to income tax (expense) / benefit

	GROUP		PARENT	
ALL VALUES IN $000'S	2014	2013	2014	2013
Profit / (loss) before taxation	65,876	47,375	(279)	(7,379)
Prima facie income tax calculated at 28%	(18,445)	(13,265)	78	2,066
Adjusted for:				
Non-tax deductible revenue and expenses	6	(359)	6	(361)
Fair value gain on investment properties	10,160	3,451	-	-
(Loss) / gain on disposals of investment properties	(577)	13	-	-
Dividend from subsidiary	-	-	1,883	-
Depreciation	2,535	1,800	-	-
Disposal of depreciable assets	(123)	92	-	-
Deductible capital expenditure	1,145	428	-	-
Property prepayments	(70)	1,086	-	-
Derivative financial instruments	(1,788)	2,274	-	851
Impairment allowance	20	(301)	-	-
Current tax prior period adjustment	24	(47)	-	-
Current taxation (expense) / benefit	(7,113)	(4,828)	1,967	2,556
Depreciation	(724)	1,024	-	-
Property prepayments	70	(1,086)	-	-
Derivative financial instruments	1,788	(2,274)	-	(851)
Impairment allowance	(20)	301	-	-
Deferred taxation benefit / (expense)	1,114	(2,035)	-	(851)
Total taxation reported in statements of comprehensive income	(5,999)	(6,863)	1,967	1,705

9. TAXATION (CONTINUED)

(ii) Deferred tax

	GROUP					
ALL VALUES IN $000'S	2012 As at	Additions due to business combination (note 23)	2013 Recognised in profit	2013 As at	2014 Recognised in profit	2014 As at
Deferred tax assets						
Derivative financial instruments	(2,333)	-	2,274	(59)	(1,788)	(1,847)
Impairment allowance	(8)	-	(301)	(309)	20	(289)
Gross deferred tax assets	(2,341)	-	1,973	(368)	(1,768)	(2,136)
Deferred tax liabilities						
Investment properties	10,221	2,489	62	12,772	654	13,426
Gross deferred tax liabilities	10,221	2,489	62	12,772	654	13,426
Net deferred tax liability	7,880	2,489	2,035	12,404	(1,114)	11,290

Parent deferred tax assets as at 31 December 2012 of $851,000 were in relation to derivative financial instruments. These were recognised in profit during the financial year ended 31 December 2013. Accordingly there are no Parent deferred tax assets as at 31 December 2013 and 31 December 2014.

The expected recovery of deferred tax assets and liabilities is as follows:

	GROUP			
	2014		2013	
ALL VALUES IN $000'S	Within 12 months	After 12 months	Within 12 months	After 12 months
Deferred tax assets	(115)	(2,021)	(72)	(296)
Deferred tax liabilities	-	13,426	-	12,772
Net deferred tax liability	(115)	11,405	(72)	12,476

(iii) Imputation credit account

The below amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of taxation payable represented in the Statement of Financial Position.

	GROUP	
ALL VALUES IN $000'S	2014	2013
Opening balance	1,153	(422)
Taxation paid	7,047	5,873
Imputation credits attached to dividends paid	(6,986)	(4,298)
Closing balance available to shareholders for use in subsequent periods	1,214	1,153

10. EARNINGS PER SHARE

	GROUP	
	2014	2013
Total comprehensive income for the year attributable to the shareholders of the Parent ($000)	59,877	40,512
Weighted average number of ordinary shares (shares)	411,502,391	316,741,868
Basic and diluted earnings per share (cents)	14.55	12.79

11. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

	GROUP		PARENT	
ALL VALUES IN $000'S	2014	2013	2014	2013
Accounts receivable, prepayments and other assets (current)				
Accounts receivable (i)	1,004	1,070	-	-
Accounts receivable - Impairment allowance[a] (ii)	-	(14)	-	-
Property prepayments[b]	2,283	1,967	-	-
Property prepayments[b] - Impairment allowance (ii)	(204)	(188)	-	-
Prepayments and other assets	132	344	197	236
Total accounts receivable, prepayments and other assets (current)	3,215	3,179	197	236
Prepayments and other assets (non-current)				
Property prepayments[b]	8,393	8,783	-	-
Property prepayments[b] - Impairment allowance (ii)	(830)	(902)	-	-
Total prepayments and other assets (non-current)	7,563	7,881	-	-
Total accounts receivable, prepayments and other assets	10,778	11,060	197	236

a Impairment allowance relates to specific accounts receivable balances aged greater than 90 days.

b Property prepayments comprises prepaid leasing costs, capitalised lease incentives and fixed rental review prepayments.

(i) Accounts receivable maturities

The maturities of the Group's gross accounts receivables based on the remaining period are as follows:

	GROUP	
ALL VALUES IN $000'S	2014	2013
Due less than 30 days (current)	826	826
Between 30 and 90 days	169	196
Greater than 90 days	9	48
Total	1,004	1,070

(ii) Impairment allowance

The impairment allowance relates to specific overdue accounts receivable and property prepayments where there is uncertainty as to whether the amounts will be recovered. The establishment and release of impairment allowance is included within non-recoverable property costs in the statements of comprehensive income. Movements are as follows:

	GROUP	
ALL VALUES IN $000'S	2014	2013
As at 1 January	1,104	28
Allowance for receivables and prepayments impairment	47	1,192
Receivables written off during the year as uncollectible	(61)	(80)
Unused amounts reversed	(56)	(36)
As at 31 December	1,034	1,104
Impairment allowance - current	204	202
Impairment allowance - non current	830	902
As at 31 December	1,034	1,104

12. INVESTMENT PROPERTIES

GROUP										GROUP			
		OCCUPANCY (%)		YIELD ON VALUATION (%)		CONTRACT RENT		LETTABLE AREA (SQM)				ADDITIONS/ CAPEX/ (DISPOSALS)	FAIR VALUE ADJUSTMENT	CARRYING VALUE
ALL VALUES IN $000'S UNLESS NOTED	KEY TENANT 2014	2014	2013	2014	2013	2014	2013	2014	VALUER 2014	CARRYING VALUE 2013	2014	2014	2014	2014
INVESTMENT PROPERTIES HELD LONG TERM														
17 Allens Road, East Tamaki	Caroma Industries	100%	95%	8.4%	8.1%	991	931	9,926	JLL	11,500	6	294	11,800
2-4 Argus Place, North Shore	Yakka Apparel Solutions	100%	100%	8.1%	8.2%	395	395	3,560	JLL	4,800	12	88	4,900
47 Arrenway Drive, North Shore	Onyx Group	100%	100%	7.2%	7.3%	220	220	1,245	JLL	3,000	16	34	3,050
51 Arrenway Drive, North Shore	Pacific Hygiene	100%	100%	6.4%	10.0%	364	459	2,686	JLL	4,600	(33)	1,133	5,700
30-32 Bowden Road, Mt Wellington	Fletcher Building Products	100%	100%	7.6%	8.4%	1,382	1,330	18,497	JLL	15,800	943	1,507	18,250
Shed 22, 23 Cable Street, Wellington	Lion Liquor Property Division	100%	100%	6.8%	7.3%	792	857	2,816	JLL	11,800	41	(241)	11,600
8a & 8b Canada Crescent, Christchurch	Polarcold Stores	100%	100%	7.7%	8.7%	1,119	1,080	9,555	JLL	12,350	109	2,041	14,500
122 Captain Springs Road, Penrose	New Zealand Crane Group	100%	100%	8.3%	8.9%	496	496	7,431	JLL	5,600	1	399	6,000
50 Carbine Road, Mt Wellington	Atlas Copco	100%	100%	6.9%	7.7%	190	190	2,592	CBRE	2,480	(8)	278	2,750
54 Carbine Road & 6a Donnor Place, Mt Wellington[a]	Pharmacy Retailing	100%	100%	7.6%	7.4%	1,516	1,382	15,740	Colliers	18,740	(133)	1,283	19,890
76 Carbine Road, Mt Wellington	Atlas Gentech	100%	100%	7.2%	7.5%	420	420	5,080	JLL	5,600	(41)	241	5,800
Carlaw Park Gateway Building, Parnell	Quest	100%	100%	7.6%	7.2%	2,565	2,655	2,369	CBRE	37,100	4	(3,404)	33,700
Carlaw Park Office Complex, Parnell	Jacobs	100%	100%	7.2%	7.6%	4,308	4,300	11,149	CBRE	56,800	(10)	2,810	59,600
7 Carmont Place, Mt Wellington	CMI	100%	100%	6.9%	7.2%	545	535	5,287	JLL	7,400	1,305	(755)	7,950
85 Cavendish Drive, Manukau	Big Save Furniture	76%	72%	6.8%	6.1%	590	577	4,994	JLL	9,400	(5)	(745)	8,650
212 Cavendish Drive, Manukau[a]	Chrisco Hampers	100%	100%	8.9%	9.4%	1,304	1,209	15,524	JLL	12,800	1,192	708	14,700
15 Copsey Place, Avondale	Canterbury	100%	100%	7.2%	7.4%	719	723	6,900	Colliers	9,800	(97)	347	10,050
43 Cryers Road, East Tamaki	Astron Plastics	100%	100%	8.0%	8.2%	692	692	6,068	CBRE	8,400	4	246	8,650
229 Dairy Flat Highway, North Shore	Massey University	100%	100%	8.0%	8.4%	1,749	1,725	6,719	Colliers	20,500	(9)	1,509	22,000
47 Dalgety Drive, Manukau	Peter Hay Kitchens	100%	100%	7.2%	8.5%	870	1,001	8,860	JLL	11,800	(20)	220	12,000
59 Dalgety Drive, Manukau	Goodman Fielder	100%	100%	7.9%	8.0%	1,213	1,172	8,649	CBRE	14,700	43	607	15,350
6 Donnor Place, Mt Wellington	Wickliffe	100%	100%	7.4%	8.2%	1,296	1,296	14,555	JLL	15,800	1,409	191	17,400
6-8 Greenmount Drive, East Tamaki	Bridon	100%	100%	8.0%	8.2%	591	591	6,590	Colliers	7,250	28	122	7,400
92-98 Harris Road, East Tamaki	Goodman Fielder	100%	100%	8.4%	8.2%	1,181	1,133	10,687	Colliers	13,900	160	40	14,100
124 Hewletts Road, Mt Maunganui[a]	Carter Holt Harvey	100%	100%	11.2%	10.9%	952	929	11,463	Colliers	8,540	14	(84)	8,470
124a Hewletts Road, Mt Maunganui	Fonterra	100%	100%	8.0%	8.8%	965	1,000	10,497	Colliers	11,400	500	200	12,100
124b Hewletts Road, Mt Maunganui	Ballance Agri-Nutrients	100%	100%	6.6%	7.0%	852	839	8,880	Colliers	12,000	-	850	12,850
3 Hocking Street, Mt Maunganui	Trayco Manufacturing	100%	100%	7.1%	7.1%	117	114	1,211	Colliers	1,600	(14)	64	1,650
8 Hugo Johnston Drive, Penrose	Argyle Schoolwear	100%	100%	8.0%	8.6%	637	633	4,355	CBRE	7,350	19	556	7,925
12 Hugo Johnston Drive, Penrose	Ricoh	100%	100%	8.8%	9.7%	333	333	2,637	CBRE	3,440	(36)	396	3,800
16 Hugo Johnston Drive, Penrose	Modempak	100%	100%	7.8%	8.0%	352	347	2,619	JLL	4,350	(31)	181	4,500
143 Hutt Park Road, Wellington[b]	EBOS	100%	n/a	7.5%	n/a	1,169	n/a	9,437	CBRE	-	15,408	122	15,530

a Excludes development land shown separately below.
b Addition due to investment property acquisition, see (ii).

12. INVESTMENT PROPERTIES (CONTINUED)

GROUP										GROUP			
		OCCUPANCY (%)		YIELD ON VALUATION (%)		CONTRACT RENT		LETTABLE AREA (SQM)			ADDITIONS/ CAPEX/ (DISPOSALS)	FAIR VALUE ADJUSTMENT	CARRYING VALUE
ALL VALUES IN $000'S UNLESS NOTED	KEY TENANT 2014	2014	2013	2014	2013	2014	2013	2014	VALUER 2014	CARRYING VALUE 2013	2014	2014	2014
INVESTMENT PROPERTIES HELD LONG TERM (continued)													
15 Jomac Place, Avondale	Southern Spars	100%	100%	7.4%	8.0%	1,481	1,481	9,378	Colliers	18,600	(42)	1,342	19,900
44 Mandeville Street, Christchurch	Fletcher Building Products	100%	100%	8.3%	8.9%	1,079	1,065	11,330	CBRE	12,000	32	968	13,000
1 Mayo Road, Manukau	Transdiesel	100%	100%	6.9%	8.3%	476	476	6,361	CBRE	5,740	608	507	6,855
102 Mays Road, Penrose	Carter Holt Harvey	100%	100%	7.9%	7.9%	425	404	7,589	CBRE	5,120	-	250	5,370
8 McCormack Place, Wellington	Information Management Group	100%	100%	9.0%	8.8%	841	820	6,405	JLL	9,325	71	(71)	9,325
4-6 Mt Richmond Road, Mt Wellington	Brambles	100%	100%	6.9%	7.9%	798	798	7,946	CBRE	10,150	254	1,186	11,590
509 Mount Wellington Highway, Mt Wellington	Fletcher Building Products	96%	89%	6.9%	7.5%	853	849	7,719	CBRE	11,250	80	1,040	12,370
511 Mount Wellington Highway, Mt Wellington	Bremca Industries	100%	100%	7.0%	7.3%	408	408	3,360	CBRE	5,580	(48)	268	5,800
515 Mount Wellington Highway, Mt Wellington	Stryker	100%	100%	6.2%	7.7%	253	253	1,708	Colliers	3,280	28	742	4,050
523 Mount Wellington Highway, Mt Wellington	BGH Group	100%	100%	6.3%	7.1%	219	214	1,677	Colliers	3,030	1	419	3,450
9 Narek Place, Manukau[a], (iv)	Z Energy	100%	n/a	5.0%	n/a	375	n/a	5,620	Colliers	-	3,510	250	3,760
36 Neales Road, East Tamaki	Mainfreight	100%	100%	8.0%	8.3%	1,082	1,082	12,546	CBRE	12,960	36	579	13,575
306 Neilson Street, Penrose	Fletcher Building Products	100%	100%	8.1%	8.3%	686	686	13,438	JLL	8,250	31	169	8,450
312 Neilson Street, Penrose	Transport Trailer Services	100%	100%	6.8%	7.5%	291	287	3,862	Colliers	3,830	(3)	443	4,270
314 Neilson Street, Penrose	Wakefield Metals	100%	100%	6.9%	7.1%	515	445	5,405	Colliers	6,250	587	643	7,480
9 Nesdale Avenue, Manukau	Brambles	100%	100%	7.2%	8.3%	605	605	14,182	CBRE	7,320	149	891	8,360
1 Niall Burgess Road, Mt Wellington	R L Button & Co	100%	100%	7.1%	7.4%	216	216	1,742	JLL	2,900	33	92	3,025
2-6 Niall Burgess Road, Mt Wellington	McAlpine Hussmann	56%	55%	4.2%	4.5%	432	432	6,874	JLL	9,550	323	377	10,250
3-5 Niall Burgess Road, Mt Wellington	Electrolux	100%	100%	7.1%	7.2%	1,031	1,007	9,373	JLL	13,900	(24)	624	14,500
7-9 Niall Burgess Road, Mt Wellington	DHL Supply Chain	100%	100%	8.3%	8.7%	2,052	2,031	23,565	Colliers	23,250	(34)	1,484	24,700
10 Niall Burgess Road, Mt Wellington	Outside Broadcasting	100%	100%	6.9%	6.8%	249	231	1,725	JLL	3,375	(3)	228	3,600
15 Omega Street, North Shore	Yakka Apparel Solutions	100%	100%	7.3%	7.7%	551	540	3,498	JLL	7,000	7	493	7,500
2 Pacific Rise, Mt Wellington	Hewlett-Packard	100%	100%	9.6%	9.3%	864	839	2,757	Colliers	9,000	26	(26)	9,000
50 Parkside Road, Wellington[a]	Transpacific Industries	100%	75%	10.8%	8.7%	335	335	9,538	JLL	3,850	(683)	(67)	3,100
61-69 Patiki Road, Avondale	Bidvest	100%	97%	7.6%	8.3%	1,017	1,051	9,755	Colliers	12,700	224	376	13,300
58 Richard Pearse Drive, Mangere	Pharmacy Retailing	100%	100%	7.2%	7.7%	958	958	10,549	CBRE	12,500	(70)	895	13,325
1 Ron Driver Place, East Tamaki	Stewart Scott Cabinetry	100%	100%	6.5%	7.3%	394	394	4,032	CBRE	5,400	(31)	731	6,100
320 Rosebank Road, Avondale	Doyle Sails	100%	100%	8.3%	8.6%	659	649	6,625	Colliers	7,550	814	(414)	7,950
686 Rosebank Road, Avondale	New Zealand Comfort	100%	100%	7.8%	8.2%	2,431	2,390	21,589	Colliers	29,000	488	1,612	31,100
322 Rosedale Road, North Shore	Imake	100%	100%	7.3%	7.4%	936	887	7,789	CBRE	12,000	48	827	12,875
48 Seaview Road, Wellington[a]	Goughs Gough & Hamer	100%	100%	9.0%	9.6%	547	550	8,984	JLL	5,721	163	216	6,100
12 Southpark Place, Penrose	Wineworks Auckland	100%	100%	8.2%	8.7%	446	446	5,477	JLL	5,100	(43)	393	5,450
78 Springs Road, East Tamaki	Fisher & Paykel Appliances	100%	100%	8.0%	8.1%	5,386	5,229	41,387	Colliers	64,200	(33)	3,333	67,500
10c Stonedon Drive, East Tamaki	Chemical Freight Services	100%	100%	7.6%	7.7%	800	800	8,711	JLL	10,350	-	150	10,500

a Excludes development land shown separately below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

12. INVESTMENT PROPERTIES (CONTINUED)

GROUP										GROUP			
		OCCUPANCY (%)		YIELD ON VALUATION (%)		CONTRACT RENT		LETTABLE AREA (SQM)			ADDITIONS/ CAPEX/ (DISPOSALS)	FAIR VALUE ADJUSTMENT	CARRYING VALUE
ALL VALUES IN $000'S UNLESS NOTED	KEY TENANT 2014	2014	2013	2014	2013	2014	2013	2014	VALUER 2014	CARRYING VALUE 2013	2014	2014	2014
INVESTMENT PROPERTIES HELD LONG TERM (continued)													
170 Swanson Road, Swanson	Transportation Auckland	100%	100%	6.6%	7.1%	924	924	37,601	JLL	13,000	(16)	1,016	14,000
558 Te Rapa Road, Hamilton	DEC Manufacturing	100%	100%	7.4%	7.6%	453	438	4,606	Colliers	5,750	34	316	6,100
5 Vestey Drive, Mt Wellington	PPG Industries	100%	100%	7.1%	8.1%	220	220	1,269	Colliers	2,700	(12)	412	3,100
7 Vestey Drive, Mt Wellington	Wickliffe	100%	100%	7.0%	7.5%	481	460	4,598	CBRE	6,160	3	727	6,890
9 Vestey Drive, Mt Wellington	Multispares	100%	100%	6.2%	7.1%	193	193	1,600	Colliers	2,730	(12)	382	3,100
11 Vestey Drive, Mt Wellington	ASB Bank	100%	100%	8.3%	7.9%	537	492	3,625	Colliers	6,200	(4)	254	6,450
15a Vestey Drive, Mt Wellington	PMP Maxum	100%	100%	8.0%	8.5%	533	533	3,249	JLL	6,300	327	23	6,650
36 Vestey Drive, Mt Wellington	Exlair	100%	100%	6.8%	7.0%	142	133	1,120	JLL	1,890	18	172	2,080
127 Waterloo Road, Christchurch	DHL Supply Chain	100%	100%	7.2%	7.5%	289	282	3,519	JLL	3,750	57	193	4,000
41 William Pickering Drive, North Shore	Mayo Hardware	100%	91%	6.9%	6.2%	372	313	3,032	CBRE	5,050	81	294	5,425
12 Zelanian Drive, East Tamaki	Central Joinery	100%	100%	6.8%	7.0%	559	547	6,098	JLL	7,800	128	272	8,200
23 Zelanian Drive, East Tamaki	Exclusive Tyre Distributors	100%	100%	6.9%	7.6%	375	366	3,811	JLL	4,800	(9)	609	5,400
27 Zelanian Drive, East Tamaki	Fisher & Paykel Appliances	26%	100%	2.2%	7.9%	160	617	5,864	CBRE	7,800	(122)	(453)	7,225
Investment properties held long term subtotal		**98%**	**97%**	**7.6%**	**7.8%**	**65,814**	**63,940**	**621,066**		**804,561**	**27,749**	**36,405**	**868,715**
DEVELOPMENT LAND													
54 Carbine Road & 6a Donnor Place, Mt Wellington									Colliers	660	-	(250)	410
212 Cavendish Drive, Manukau									JLL	1,400	-	-	1,400
124 Hewletts Road, Mt Maunganui									Colliers	2,560	-	170	2,730
9 Narek Place, Manukau (iv)									Colliers	3,500	(1,960)	10	1,550
50 Parkside Road, Wellington									JLL	-	700	-	700
48 Seaview Road, Wellington									JLL	549	-	(49)	500
Development land - subtotal										8,669	(1,260)	(119)	7,290
Investment properties - disposals (iii)										28,611	(28,611)	-	-
Investment properties - total										**841,841**	**(2,122)**	**36,286**	**876,005**
Less:													
Investment properties held for sale (v)										(2,141)	2,141	-	-
Property prepayments - Current (see note 11)										(1,779)	(300)	-	(2,079)
Property prepayments - Non-current (see note 11)										(7,881)	318	-	(7,563)
Investment properties - total, as disclosed in the Statement of Financial Position										**830,040**	**37**	**36,286**	**866,363**

12. INVESTMENT PROPERTIES (CONTINUED)

	GROUP	
ALL VALUES IN $000'S	2014	2013
Opening balance	841,841	382,180
Acquisitions due to business combination (note 23)	-	422,010
Additions (ii)	15,408	14,637
Disposals (iii)	(28,650)	(4)
Capital expenditure	11,101	10,777
Capitalised interest[a]	37	8
Movement in property prepayments	(18)	(93)
Unrealised fair value gain	36,286	12,326
As at 31 December	876,005	841,841
Represented in the statement of financial position by:		
Property prepayments (note 11)	9,642	9,660
Investment properties held for sale (v)	-	2,141
Investment properties	866,363	830,040
As at 31 December	876,005	841,841

a The effective interest rate applied to capitalised interest was 5.64% (2013: 5.52%).

(i) Valuation and fair value measurement

All investment properties were valued as at 31 December 2014 by CB Richard Ellis (CBRE), Colliers International (Colliers) or Jones Lang LaSalle (JLL). CBRE, Colliers and JLL are independent valuers and members of the New Zealand Institute of Valuers. The fair value reflects the Directors' assessment of highest and best use of each property.

As part of the valuation process, the Manager verifies all major inputs to the independent valuation reports, assesses movements in individual property values and holds discussions with the independent valuer.

Investment property measurements as at 31 December 2014 have been categorised as level 3 in the fair value hierarchy using the valuation techniques noted above.

This categorisation reflects the transfer of all investment property measurements from level 2 in the fair value hierarchy to level 3 in the fair value hierarchy as at 31 December 2014. The Board and Management have determined that level 3 categorisation better reflects the significance of the inputs used in making the measurements then level 2.

The fair value was determined using level 3 valuation techniques via a combination of the following approaches:

- **Direct Capitalisation:** 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 or over renting, additional revenue and required capital expenditure.
- **Discounted Cash Flow:** Discounted cash flow projections for the subject property are based on estimates of future cash flows, supported by the terms of any existing lease and by external evidence such as 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.

12. INVESTMENT PROPERTIES (CONTINUED)

Significant inputs used together with the impact on fair value of a change in inputs:

	GROUP		MEASUREMENT SENSITIVITY	
	2014	2013	Increase in input	Decrease in input
Market capitalisation rate (%)[1]	6.25 - 9.00	6.88 - 10.00	Decrease	Increase
Market rental ($ per sqm)[2]	25 - 357	25 - 414	Increase	Decrease
Discount rate (%)[3]	7.75 - 10.00	8.50 - 10.50	Decrease	Increase
Rental growth rate (%)[4]	1.95 - 3.30	2.21 - 3.30	Increase	Decrease
Terminal capitalisation rate (%)[5]	6.25 - 9.00	7.00 - 10.00	Decrease	Increase

1 The capitalisation rate applied to the market rental to asses a property's value, determined through analysis of similar transactions taking into account location, weighted average lease term, customer covenant, size and quality of the property.

2 The valuers assessment of the net market income which a property is expected to achieve under a new arm's length leasing transaction. Includes both leased and vacant areas.

3 The rate applied to future cash flows reflecting transactional evidence from similar properties.

4 The rate applied to the market rental over the future cash flow projection.

5 The rate used to assess the terminal value of the property.

Generally, a change in the assumption made for the adopted market capitalisation rate is accompanied by a directionally similar change in the adopted terminal capitalisation rate. The adopted market capitalisation rate forms part of the direct capitalisation approach and the adopted terminal capitalisation rate forms part of the discounted cash flow approach. Both valuation methodologies are considered when determining an investment property's fair value.

When calculating the direct capitalisation approach, the market rental has a strong interrelationship with the adopted market capitalisation rate given the methodology involves assessing the total market rental income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the market rent and an increase in the adopted market capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the market rent and a decrease in the adopted market capitalisation rate. A directionally opposite change in the market rent and the adopted market capitalisation rate could potentially magnify the impact to the fair value.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal capitalisation rate have a strong interrelationship in deriving at a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value. In theory, an increase in the adopted discount rate and a decrease in the adopted terminal capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the discount rate and an increase in the adopted terminal capitalisation rate. A directionally similar change in the adopted discount rate and the adopted terminal capitalisation rate could potentially magnify the impact to the fair value.

(ii) Additions

During the year to 31 December 2014 the Group acquired 143 Hutt Park road, Wellington for a net purchase price of $15,384,000, with transaction costs of $24,000. During the year ended 31 December 2013, the Group acquired 30-32 Bowden Road, Mt Wellington for a net purchase price of $14,600,000, with transaction costs of $37,000.

12. INVESTMENT PROPERTIES (CONTINUED)

(iii) Disposals

	GROUP				
	2013	2014			
ALL VALUES IN $000'S	Carrying value	Capital expenditure	Total	Net sales proceeds	(Loss) / Gain on disposal
5 Cable Street, Wellington	6,800	72	6,872	6,721	(151)
174b Marua Road, Mt Wellington (v)	2,141	-	2,141	2,144	3
19A & 19B Omega Street, North Shore	2,030	(13)	2,017	1,939	(78)
18 Ron Driver Place, East Tamaki	16,600	30	16,630	14,819	(1,811)
326 Rosebank Road, Avondale	1,040	(50)	990	966	(24)
Total	28,611	39	28,650	26,589	(2,061)

During the year ended 31 December 2013, the Group sold a parcel of land at 686 Rosebank Road, Avondale for $51,000 before disposal costs, the carrying value as at 31 December 2012 was $4,000.

(iv) Investment property under construction

As at 31 December 2014, 9 Narek Place, Manukau is an investment property under construction and is 46% complete. The property is held at fair value less costs to complete, as fair value can be reliably measured.

(v) Investment property held for sale

As at 31 December 2013, 174b Marua Road, Mt Wellington was classified as investment property held for sale with a carrying value of $2,141,000. This property was subsequently disposed during the 2014 year (refer section iii above).

13. GROUP COMPANIES

On 26 March 2014, P.F.I. Property Limited paid a net dividend of $6,725,000 to Property For Industry Limited with imputation credits attached of $2,615,000 (2013: nil).

On 30 June 2014, P.F.I. Property Limited was amalgamated into P.F.I. Property No. 1 Limited with P.F.I. Property No.1 Limited continuing as the amalgamated company. The amalgamated company by law succeeded to all the property, rights, power, privileges and for all the liabilities and obligations of the amalgamating company. P.F.I. Property Limited has been removed from the New Zealand register of companies. The amalgamation had no impact on the Group or Parent results for year to 31 December 2014.

The loan to P.F.I. Property No. 1 Limited is interest free and repayable on demand. The loan will be repaid using the proceeds of rental income, disposals of properties or drawings from term loans. Transactions with group companies are related party transactions (see note 24).

	PARENT			
	2014		2013	
ALL VALUES IN $000'S	Investment in subsidiary	Subsidiary loan	Investment in subsidiaries	Subsidiary loans
P.F.I. Property No. 1 Limited	71,628	134,796	1,750	(201,833)
P.F.I. Property Limited	-	-	69,878	363,812
Total	71,628	134,796	71,628	161,979

14. GOODWILL

	GROUP	
ALL VALUES IN $000'S	2014	2013
Total Goodwill	29,086	29,086

Goodwill is allocated to the Group's cash generating units (CGU) identified according to the lowest level at which the goodwill is monitored. All goodwill relates to the Property For Industry Limited CGU.

Goodwill was tested for impairment as at 31 December 2014 and 31 December 2013. To assess whether goodwill is impaired, the carrying amount of the Property for Industry CGU is compared to the recoverable amount, determined based on fair value less costs of disposal. Fair value less costs of disposal is measured by calculating the fair value of the Property for Industry Limited CGU using a 1 day volume-weighted average share price at the reporting date, applying a control premium and deducting costs of disposal.

The estimated fair value less costs of disposal of the Property For Industry Limited CGU exceeded the carrying value (2013: nil impairment).

15. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	GROUP		PARENT	
ALL VALUES IN $000'S	2014	2013	2014	2013
Accounts payable	264	371	-	-
Accrued interest expense and bank fees	3,252	4,431	-	-
Accruals and other liabilities in respect of investment properties	3,007	2,347	-	-
Other accounts payable, accruals and other liabilities	2,964	2,602	1,208	790
Total accounts payable, accruals and other liabilities	9,487	9,751	1,208	790

16. DERIVATIVE FINANCIAL INSTRUMENTS

(i) Fair values

	GROUP	
ALL VALUES IN $000'S	2014	2013
Current assets	2	-
Non-current assets	54	3,269
Current liabilities	(164)	-
Non-current liabilities	(6,339)	(3,285)
Total	(6,447)	(16)

(ii) Notional values, maturities and interest rates

	GROUP	
	2014	2013
Notional value of interest rate swaps - start dates commenced ($000'S)	278,000	303,500
Notional value of interest rate swaps - forward starting ($000'S)	75,000	75,000
Total ($000'S)	353,000	378,500
Average period to expiry - start dates commenced (years)	2.47	1.66
Average period to expiry - forward starting (years)	4.40	4.00
Average (years)	2.88	2.12
Average interest rate[1] - start dates commenced (%)	4.46%	3.70%
Average interest rate[1] - forward starting (%)	4.57%	4.08%
Average (%)	4.48%	3.78%

1 Excluding margin and fees.

16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Valuation approach

The fair value of derivative financial instruments are determined from valuations prepared by independent treasury advisers using level 2 valuation techniques. These are based on the present value of estimated future cash flows based on the terms and maturity of each contract and the current market interest rates at reporting date. Fair values also reflect the current creditworthiness of the derivative counterparty. These values are verified against valuations prepared by the respective counterparties.

Derivative financial instruments are subject to recurring fair value measurements and are categorised as level 2 in the fair value hierarchy. During the year, there were no transfers of derivatives between levels of the fair value hierarchy.

The valuations were based on market rates at 31 December 2014 of between 3.68% (31 December 2013: 2.84%) for the 90 day BKBM and 4.11% (31 December 2013: 5.27%) for the 10 year swap rate. There were no changes to these valuation techniques during the period.

17. BORROWINGS

(i) Facility

On 2 May 2014, the Group entered into new facilities (A and B) with a banking syndicate comprising ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand (BNZ), Commonwealth Bank of Australia, New Zealand Branch (CBA) and Westpac New Zealand Limited (Westpac) for $350,000,000.

Facility A for $175,000,000 is provided by ANZ, BNZ, CBA and Westpac who provide 27.1%, 24.3%, 24.3% and 24.3% respectively of Facility A's limit and drawings. Facility A is a revolving facility of a long term nature and expires 30 April 2018.

Facility B for $175,000,000 is provided by ANZ, BNZ, CBA and Westpac who provide 27.1%, 24.3%, 24.3% and 24.3% respectively of Facility B's limit and drawings. Facility B is a revolving facility of a long term nature and expires 30 April 2019.

	GROUP	
ALL VALUES IN $000'S	2014	2013
ANZ	95,000	75,000
BNZ	85,000	100,000
CBA	85,000	75,000
Westpac	85,000	100,000
Total facilities available	350,000	350,000
Facility drawn down - non-current	313,500	315,190
Undrawn facility available	36,500	34,810
Total facilities available	350,000	350,000
Weighted average term to maturity (years)	3.83	2.54

(ii) Net borrowings

	GROUP	
ALL VALUES IN $000'S	2014	2013
Facility drawn down - non-current	313,500	315,190
Prepaid loan fees	(703)	(591)
Net borrowings	312,797	314,599

After taking into account the impact of current interest rate swaps, the blended interest rate as at 31 December 2014 for the drawn down borrowings was 5.96% (31 December 2013: 5.51%).

(iii) Security and covenants

The facility is secured by way of a security trust deed and registered mortgage security which is required to be provided over Group properties with current valuations of at least $700,000,000. In addition to this, the facility agreement contains a negative pledge. Property For Industry Limited and P.F.I. Property No. 1 Limited are guarantors to the facility. As at 31 December 2014, investment properties totalling $851,955,000 (31 December 2013: $801,500,000) were mortgaged as security for the Group's borrowings.

The facility contains covenants that require the Group to maintain a loan to value ratio of not more than 50% and an interest cover ratio (that is, the ratio of earnings before interest to interest) of not less than 2:1. These covenants are unchanged from the prior year. The Group complied with all covenants during the current and prior year.

18. SHARE CAPITAL

	GROUP & PARENT			
	2014		2013	
	Shares	$000	Shares	$000
Authorised and issued share capital at 1 January	411,502,391	434,986	220,410,728	171,471
Shares issued via business combination on 1 July 2013 (note 23)	-	-	191,091,663	263,515
Authorised and issued share capital at 31 December	411,502,391	434,986	411,502,391	434,986

All shares on issue are fully paid, carry equal voting rights, share equally in dividends and any surplus on wind up and have no par value.

19. NET TANGIBLE ASSETS PER SHARE

The net tangible assets and closing shares on issue used in the calculation of net tangible assets per share are as follows:

	GROUP	
	2014	2013
Net assets ($000)	564,970	535,173
Less: Goodwill ($000) (note 14)	(29,086)	(29,086)
Net tangible assets ($000)	535,884	506,087
Closing shares on issue (shares)	411,502,391	411,502,391
Net tangible assets per share (cents)	130	123

20. RECONCILIATION OF PROFIT / (LOSS) FOR THE YEAR WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		PARENT	
ALL VALUES IN $000'S	2014	2013	2014	2013
Profit / (loss) for the year	59,877	40,512	1,688	(5,674)
Adjusted for non cash and non-operating items				
Fair value gain on investment properties	(36,286)	(12,326)	-	-
Loss / (gain) on disposals of investment properties	2,061	(47)	-	-
Fair value loss / (gain) on derivative financial instruments	6,431	(8,080)	-	(3,018)
Deferred taxation	(1,114)	2,035	-	851
Adjusted for movements in other working capital items:				
Reduction in accounts receivable, prepayments and other assets	170	1,346	39	140
(Reduction) / increase in accounts payable, accruals and other liabilities	(924)	1,080	418	274
Increase in taxation payable	100	641	-	-
Net cash flow from operating activities	30,315	25,161	2,145	(7,427)

21. FINANCIAL INSTRUMENTS

The following financial assets and liabilities, that potentially subject the Group and Parent to financial risk, have been recognised in the financial statements:

	GROUP		PARENT	
ALL VALUES IN $000'S	2014	2013	2014	2013
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	596	1,348	596	1,348
Accounts receivable	1,004	1,070	-	-
Loans to subsidiaries	-	-	134,796	363,812
Total - Loans and receivables	1,600	2,418	135,392	365,160
Fair value through profit or loss - held for trading:				
Derivative financial instruments	56	3,269	-	-
Total - Fair value through profit or loss	56	3,269	-	-
Total Financial Assets	1,656	5,687	135,392	365,160
Financial Liabilities				
Liabilities at amortised cost:				
Accounts payable, accruals and other liabilities	9,487	9,751	1,208	790
Loans from subsidiaries	-	-	-	201,833
Borrowings	312,797	314,599	-	-
Total - Liabilities at amortised cost	322,284	324,350	1,208	202,623
Fair value through profit or loss - held for trading:				
Derivative financial instruments	6,503	3,285	-	-
Total - Fair value through profit or loss	6,503	3,285	-	-
Total Financial Liabilities	328,787	327,635	1,208	202,623

22. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, and liquidity risk. The Group's overall risk management strategy focuses on minimising the potential negative economic impact of unpredictable events on the Group's financial well being.

(a) Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to the Group's borrowings with a floating interest rate. The Group has an interest rate hedging policy which has been reviewed by an external firm with expertise in this area. The policy calls for a band of the Group's borrowings to be at fixed interest rates, with a greater proportion of the near term to be fixed and a lesser percentage of the far dated to be fixed.

The Group uses derivative financial instruments, principally interest rate swaps, to exchange its floating short term interest rate exposure for fixed long term interest rate exposure in accordance with its policy bands. As the Group holds derivative financial instruments, there is a risk that their fair value will fluctuate because of underlying changes in market interest rates. This is accepted as a by-product of the Group's interest rate hedging policy. The fair value of derivative financial instruments is disclosed in the Statement of Financial Position (refer note 16).

The following sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities 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.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

GROUP						
	2014			2013		
ALL VALUES IN $000'S	Carrying amount	Gain/(loss) on increase of +0.50%	Gain/(loss) on decrease of +0.50%	Carrying amount	Gain/(loss) on increase of +0.50%	Gain/(loss) on decrease of +0.50%
Financial assets						
Cash and cash equivalents	596	-	-	1,348	-	-
Accounts receivable	1,004	-	-	1,070	-	-
Derivative financial instruments	56	288	(288)	3,269	2,433	(2,433)
Total Financial Assets	1,656	288	(288)	5,687	2,433	(2,433)
Financial liabilities						
Accounts payable, accruals and other liabilities	9,487	-	-	9,751	-	-
Derivative financial instruments	6,503	4,206	(4,206)	3,285	1,012	(1,012)
Borrowings	312,797	(1,564)	1,564	314,599	(1,576)	1,576
Total Financial Liabilities	328,787	2,642	(2,642)	327,635	(564)	564

PARENT						
	2014			2013		
ALL VALUES IN $000'S	Carrying amount	Gain/(loss) on increase of +0.50%	Gain/(loss) on decrease of +0.50%	Carrying amount	Gain/(loss) on increase of +0.50%	Gain/(loss) on decrease of +0.50%
Financial assets						
Cash and cash equivalents	596	-	-	1,348	-	-
Loans to subsidiaries	134,796	-	-	363,812	-	-
Total Financial Assets	135,392	-	-	365,160	-	-
Financial liabilities						
Accounts payable, accruals and other liabilities	1,208	-	-	790	-	-
Loans from subsidiaries	-	-	-	201,833	-	-
Total Financial Liabilities	1,208	-	-	202,623	-	-

The impact on equity of the Group of the +/- 0.5% movement would be +/-$1,695,000 (2013: +/-$2,158,000). The impact on equity of the Parent of the +/- 0.5% movement would be +/- nil (2013: +/- nil).

Further details of the Group's derivative financial instruments are disclosed in note 16 to the financial statements.

(b) Credit risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to discharge its obligations and the Group will suffer financial loss as a result. Financial instruments which potentially subject the Group to credit risk consist of cash and cash equivalents, accounts receivable, loans to subsidiaries, and interest rate swap agreements.

With respect to the credit risk arising from cash and cash equivalents, there is limited credit risk as cash is deposited with ANZ Bank New Zealand Limited or the Bank of New Zealand, registered banks in New Zealand. The credit rating of both banks is AA– (Standard & Poors).

With respect to the credit risk arising from accounts receivable, the Group only enters into lease arrangements over its investment properties with parties whom the Group assesses to be creditworthy. It is the Group's policy to subject all potential tenants to credit verification procedures and monitor accounts receivable balances.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

With respect to the credit risk arising from interest rate swap agreements, there is limited credit risk as all counterparties are registered banks in New Zealand. The credit ratings of these banks are all AA– (Standard & Poors).

A credit risk also arises in the Parent from a loan to P.F.I. Property No. 1 Limited. This amount is not interest bearing, and has no fixed repayment terms. Further details of the loan to P.F.I. Property No. 1 Limited are disclosed in note 13 to the financial statements.

The carrying amount of financial assets as per note 22(a) approximates the Groups maximum exposure to credit risk . For certain receivables the Group holds bank guarantees, parent company guarantees or personal guarantees.

(c) Liquidity risk

Liquidity risk is the risk that the Group will have difficulty realising assets and raising sufficient funds to satisfy commitments associated with financial liabilities.

The Group manages its liquidity risk by ensuring that it has committed funding facilities at a minimum of 105% of the projected peak debt level over the next twelve months (excluding business acquisitions).

The maturities of the Group's borrowings based on the remaining period is 3.8 years (2013: 2.5 years), with all borrowings due later than one year (2013: later than one year). Further details of the Group's borrowings, including the maturities of the Group's borrowings, are disclosed in note 17 to the financial statements.

The tables below analyses the Group and Parent's financial liabilities (principal and interest) by the relevant contracted maturity groupings based on the remaining period as at 31 December 2014 and 31 December 2013.

GROUP						
		Contractual cash flows				
ALL VALUES IN $000'S	Carrying amount	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Financial liabilities						
Accounts payable, accruals and other liabilities	9,487	9,487	-	-	-	9,487
Derivative financial instruments[1]	6,447	2,703	2,234	2,951	481	8,3 69
Borrowings	312,797	16,508	16,508	343,023	-	376,039
Total as at 31 December 2014	328,731	28,698	18,742	345,974	481	393,895
Accounts payable, accruals and other liabilities	9,751	9,751	-	-	-	9,751
Derivative financial instruments[1]	16	(2,697)	(1,114)	2,328	1,766	283
Borrowings	314,599	11,694	11,694	320,909	-	344,297
Total as at 31 December 2013	324,366	18,748	10,580	323,237	1,766	354,331

1 The carrying amount of derivative financial instruments shown is the net position of both derivative financial instrument assets and derivative financial instrument liabilities.

PARENT						
		Contractual cash flows				
ALL VALUES IN $000'S	Carrying amount	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Financial liabilities						
Accounts payable, accruals and other liabilities	1,208	1,208	-	-	-	1,208
Total as at 31 December 2014	1,208	1,208	-	-	-	1,208
Accounts payable, accruals and other liabilities	790	790	-	-	-	790
Loans from subsidiaries	201,833	201,833	-	-	-	201,833
Total as at 31 December 2013	202,623	202,623	-	-	-	202,623

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst maximising the return to shareholders through maintaining an optimal balance of debt and equity. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's capital structure includes borrowings and shareholders equity. The Group monitors capital on the basis of the loan to value ratio and borrowing covenant compliance. The loan to value ratio is calculated as borrowings divided by investment properties. The Group's strategy is to maintain a loan to value ratio of no more than 40%. The covenants on all borrowings require a loan to value ratio of no more than 50%. Refer to note 17(iii) for more detail on the Groups borrowing covenants.

23. BUSINESS COMBINATION

On 1 July 2013, the Company amalgamated with Direct Property Fund Limited (DPF) by way of court approved scheme of arrangement. As part of the amalgamation, DPF's 100% subsidiary Direct Property Fund No. 1 Limited became a 100% subsidiary of the Company and changed its name to P.F.I. Property Limited on 15 July 2013.

Accordingly, the Company's financial statements for the 2013 year include a contribution from DPF to revenues of $16,340,000 for Group and $Nil for Parent and net profit of $11,911,000 for Group and net loss of $1,231,000 for Parent. Had DPF been acquired and amalgamated with the Company on 1 January 2013, Management estimates that consolidated revenue for the Group for the 2013 year would have been $32,094,000 and consolidated net profit for the Group would have been $15,978,000. In determining these amounts, Management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2013. These amounts have been calculated using the Group's accounting policies.

Details of the consideration paid, identifiable assets acquired and liabilities assumed are as follows:

		GROUP
ALL VALUES IN $000'S	NOTE	2013
Purchase consideration:		
Issued shares in Property For Industry Limited	18	263,515
Total purchase price		263,515
Fair value of assets acquired and liabilities assumed:		
Cash and cash equivalents		12
Accounts receivable, prepayments and other assets		3,536
Investment properties[1]		418,943
Accounts payable, accruals and other liabilities		(3,173)
Borrowings		(182,400)
Deferred tax liabilities		(2,489)
Fair value of identifiable assets and liabilities		234,429
Goodwill arising on acquisition	14	29,086

1 The valuation of investment properties at the acquisition date was performed by an independent professional appraiser with experience in the relevant market.

The fair value of the ordinary shares issued was based on the volume-weighted average listed share price of the Company on 1 July 2013 of $1.379 per share.

Goodwill of $29,086,000 arose in this business combination because the consideration paid for the combination effectively included the Company's traded share price premium over the Company's net tangible assets per share as well as a premium paid for DPF's shares compared to its net tangible assets.

The Group incurred acquisition-related costs of $2,760,000 relating to external legal fees and due diligence costs. DPF's portion ($1,380,000) was expensed prior to the transaction. PFI's portion ($1,380,000) was included in business combination transaction costs within the Group's consolidated statement of comprehensive income.

Total fees of $14,000 were paid to BDO, the Company's Auditor during 2013 for other assurance engagements in relation to the business combination. DPF's portion (50%) was expensed prior to the transaction. PFI's portion was included in other fees paid to auditors for other assurance engagements within the Group's consolidated statement of comprehensive income.

24. RELATED PARTY TRANSACTIONS

(a) Management fees

The Manager, PFIM Limited (PFIM) is entitled to be paid base management and incentive fees for the provision of management and administrative services, pursuant to a management and administrative services contract. During the year, Gregory Reidy was a Director of both PFIM and the Company.

(i) Base management fees

The annual base management fee payable is calculated as follows:

- 0.725% of total tangible assets under management up to $425 million;
- 0.450% of total tangible assets under management above $425 million and below $775 million;
- 0.350% of total tangible assets under management above $775 million.

During the year, the Group incurred base management fees totalling $4,894,000 (2013: $3,425,000) from PFIM, for the provision of management and administrative services. As at 31 December 2014 $418,000 (2013: $409,000) was owing and included in accounts payable, accruals and other liabilities.

(ii) Incentive fees

An incentive fee is calculated and payable on quarterly basis. The fee is calculated as 10% of the actual increase in shareholder returns which is above 10% in that quarter. Where shareholder returns exceed 15% in a quarter, no payment is due for the actual amount of the increase above 15% but the amount of the increase above 15% can be carried forward and added to the calculation of shareholder returns in later quarters. However, if shareholder returns are less than 10% in a quarter, the deficit can also be carried forward and subtracted from the calculation of shareholder returns in later quarters.

During the year, the Group incurred $710,000 incentive fees from PFIM (2013: $360,000). As at 31 December 2014, a surplus amount of $3,213,000 (2013: deficit $3,589,000) has been carried forward to be included in the calculation to determine whether an incentive fee is payable in subsequent periods. As at 31 December 2014 $710,000 (2013: nil) was owing and included in accounts payable, accruals and other liabilities.

(b) Other related party transactions

During the year, the Group incurred legal fees totalling $131,000 (2013: $430,000) from Chapman Tripp. During the year, Arthur Young was a partner in Chapman Tripp and a Director of the Company until his retirement on 16 May 2014. As at 31 December 2014 there was no amount owing and included in accounts payable, accruals and other liabilities (2013: $6,000).

During the year, the Group incurred $4,455,000 (2013: $8,383,000) for construction and maintenance works from Haydn & Rollett Limited. During the year, Arthur Young and John Waller were Directors of both Haydn & Rollett Limited and the Company (Arthur Young until his retirement from the Company on 16 May 2014). As at 31 December 2014 $666,000 (31 December 2013: $1,656,000) was owing and included in accounts payable, accruals and other liabilities.

During the year, the Group incurred $4,834,000 (2013: $3,111,000) for interest expense and bank fees from the Bank of New Zealand. During the year, John Waller was a Director of both Bank of New Zealand and the Company. As at 31 December 2014 $740,000 (31 December 2013: $1,257,000) was owing and included in accounts payable, accruals and other liabilities.

During 2014 and 2013 the Company made cash advances to its subsidiaries by way of loans and received a dividend. These are disclosed further in note 13.

No related party debts have been written off or forgiven during the year (2013: nil).

During the year, fees paid to Directors of the Group were $278,000 (2013: $230,000).

As at 31 December 2014, Directors of the Company held 8,541,394 (31 December 2013: 9,668,839) shares beneficially in the Company and 250,000 (31 December 2013: 23,945,793) shares non-beneficially in the Company.

25. OPERATING SEGMENTS

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. The Group is internally reported as a single operating segment to the chief operating decision-maker.

26. OFFSETTING

The Group does not have material financial assets or financial liabilities which are subject to offsetting enforceable master netting arrangements and similar agreements.

27. CAPITAL COMMITMENTS

As at 31 December 2014 the Group had capital commitments totalling $1,819,000 (31 December 2013: $321,000) relating to work on investment properties.

28. CONTINGENT LIABILITIES

As at 31 December 2014 the Group had no material contingent liabilities (31 December 2013: none).

29. SUBSEQUENT EVENTS

On 17 February 2015, the Directors of the Company approved the payment of a net dividend of $8,024,000 (1.9500 cents per share) to be paid on 12 March 2015. The gross dividend (2.2627 cents per share) carries imputation credits of 0.3127 cents per share. The payment of this dividend will not have any tax consequences for the Group and no liability has been recognised in the Statement of Financial Position as at 31 December 2014 in respect of this dividend.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Property For Industry Limited

Report on the Financial Statements

We have audited the financial statements of Property For Industry Limited ("the Company") on pages 32 to 63, which comprise the statements of financial position as at 31 December 2014, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We are independent of the Company and Group. Our firm carries out other services for the Group in the area of other assurance services. The provision of these other services has not impaired our independence.

Opinion

In our opinion, the financial statements on pages 32 to 63:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 December 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report

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 work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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 opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants

17 February 2015

Auckland

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ISSUER

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Colliers International New Zealand Limited
Jones Lang LaSalle Limited

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Commonwealth Bank of Australia
Westpac New Zealand Limited

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CALENDAR

2015

MARCH
- 2014 Final dividend payment
- 2014 Annual report released

MAY
- 2015 First-quarter announcement
- 2015 First-quarter dividend payment
- Annual meeting

AUGUST
- 2015 Half-year announcement
- 2015 Half-year dividend payment

SEPTEMBER
- Interim report released

NOVEMBER
- 2015 Third-quarter announcement
- 2015 Third-quarter dividend payment

2016

FEBRUARY
- 2015 Full-year announcement

MARCH
- 2015 Final dividend payment
- 2015 Annual report released

This Annual Report is dated 19 March 2015 and signed on behalf of the board by:

Peter Masfen
Chairman

Anthony Beverley
Director

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