HELLABYHOLDINGS LIMITED

ANNUAL GENERAL MEETING

18 NOVEMBER 2005

MANAGING DIRECTOR'S REPORT

Good morning Ladies and Gentlemen.

I am pleased to welcome you to this 2005 Annual General Meeting of Hellaby Holdings Limited.

Although the New Zealand economy has performed well over the past 12 months there have been growing signs that growth in the economy is starting to slow down as the impact of the Reserve Bank's policy of increasing interest rates and the consequent strong New Zealand dollar has started to flow through to consumer spending and business confidence.

It was therefore pleasing to be able to report that the Hellaby Group achieved an increase in profitability in the year to 30 June 2005 with the operating surplus before tax increasing by 7% to a record $26.2 million and the Group's underlying net profit after tax increasing by 7.6% to $19.9 million.

This increase in profitability was a result of higher contributions from all of the Group's trading divisions.

The Automotive and Industrial divisions recorded sound earnings growth with both AB Equipment and Eurolift achieving record earnings before interest and tax.

The improved contribution from the Diversified Companies Division reflected higher earnings from Levana and a part year contribution from newly acquired Elldex.

The increased profit from the Retail division reflected record earnings by Hannahs and a part year contribution from newly acquired BBQ Factory although the contribution from Rodd & Gunn was slightly below the previous year's result and the contribution from BBQ Factory was below our expectations.

Since balance date Hellaby Holdings has acquired an 80% shareholding in No1 Shoe Warehouse with an agreement to purchase the remaining 20% of the Company in August 2007.

No1 Shoe Warehouse is New Zealand's largest specialist discount shoe retailer.

The business operates predominantly in a different market segment to our other shoe retailing interests and is therefore very complementary to our existing business.

No1 currently has sales of around $50 million from some 30 stores throughout New Zealand.

The company has plans to increase this to over 40 stores over the next 2 to 3 years and will continue to upgrade existing smaller format stores to further increase the company's sales and profit over that time.

We are very pleased with the results of Elldex and No1 Shoe Warehouse since acquisition.

Elldex is performing in line with our expectations and is developing a range of new business initiatives that should grow profit over the next 2 to 3 years.

No1 Shoe Warehouse is achieving very strong new store and same store sales growth and is achieving profit ahead of our forecasts.

However, as shareholders will be aware, Hellaby advised the New Zealand Stock Exchange last month that the Group's results for the first three months of the current financial year were below expectations and that on the basis of trading over this period it was the directors view that the contribution from the Group's retail division for the year to 30 June 2006 would be below budget and as a consequence the Hellaby Group underlying earnings may be some 15% below the $20 million achieved last year.

The reality is that in the retail business there are two factors to address: how well you operate (and we see ourselves as experienced retail operators and owners) and what the economy is doing in terms of people's retail spending habits.

Retailing is highly dependent on seasonal factors with Christmas and the summer season being the time that matters for many businesses.

Our retail operations cover a number of areas.

We have shoes covered through Hannahs and No1 Shoe Warehouse.

Hannahs had a disappointing first three months of the Hellaby financial year but trading improved considerably in October with the company achieving its sales budget and exceeding its profit forecast in the month.

No1 Shoe Warehouse has traded very strongly since we acquired the business in July and has exceeded its sales and profit budgets over the period.

Rodd & Gunn had a very disappointing July but since then has traded ahead of last year but behind budget.

Our other retail business is the BBQ Factory. Despite the company's efforts to broaden the product categories it remains largely a seasonal business and how it fares over the coming few months will largely dictate its contribution to our Group's earnings in the current year.

We are currently reviewing how this business is positioned in the market place and this is a primary task of the new management we now have in the organisation.

Hellaby is very experienced at building businesses and re-positioning them to maximise value so we will be applying those skills to capitalising on the advantages that the BBQ Factory has as a business – a strong brand, leading products, a national footprint and mostly well placed sites.

In terms of our automotive, industrial and distribution businesses, they are continuing to perform well.

Many of these have defensive positions in the market place and have a history of performing well when economic conditions are tight, as they may well be in the coming year.

So overall, I'm not in a position to predict with accuracy what our result for the current year will be beyond the advice already given to the New Zealand Stock Exchange.

However, and this is a personal view not a prediction, if the trends shown in October continue over the next two months we would expect our performance over the second quarter to be a lot better relative to budget, but not by enough to recover the shortfall in the first quarter so I would expect that the first half of the year will still be behind last year.

If the current trends continue into the second half of the year it is likely that we could recover some of the shortfall but are unlikely to achieve a result close to last year's underlying profit. That of course is dependent on a number of factors that we can only speculate on at present.

After the Christmas/New Year period we will be in a better position to project what the annual result may be and we will of course advise shareholders and the Stock Exchange accordingly once the position is clearer or if it changes materially in the meantime.

We are still looking for opportunities to grow the Group and are currently evaluating a number of acquisition opportunities in the Group's traditional areas of expertise – industrial and automotive and distribution, while at the same time seeking to grow our existing businesses through organic growth.

The Hannahs Pulp business in Australia and Hush Puppy in New Zealand are proving to be so successful that we will continue to grow these businesses and as already mentioned, No1 Shoe Warehouse is in the middle of a significant programme of expansion.

In his presentation, the Chairman's made reference to Hellaby policy of distributing a high percentage of our annual profit after tax to shareholders as dividends.

Shareholders should be aware that despite this relatively high pay-out rate, our analysis shows that over the last three years the cash generated from our operating earnings and investment activities adjusted for depreciation and other non-cash expenses was around $81 million which very comfortably covered dividends paid during the period of $44 million and also met the $32 million increase in working funds necessary to keep our business operating.

Net Investments over the period of around $68 million were predominantly funded from increased borrowings of some $64 million.

This has certainly addressed the criticism levelled at Hellaby some years ago that we were under-geared. However, to provide the financial flexibility to continue to pursue growth opportunities the group will have to have the appropriate capital structure to ensure access to funds to support the continued growth of the group.

There are a number of options before the company to achieve this including the divestment of assets which are considered non-core, mature or where other owners can add more value than we can, alternative forms of borrowing such as subordinated debt or capital notes or possibly raising additional capital from shareholder.

These alternatives are currently under review by your directors.

After several years of strong growth in the New Zealand economy we are undoubtedly moving into a more uncertain period.

Hellaby is proudly a New Zealand company and despite the strong positions of most of our businesses the fortunes of the Group will be affected by the performance of the New Zealand economy over the next few years.

In conclusion I would like to again acknowledge the support I have received from our Chairman and directors over the past 12 months and on behalf of directors and shareholders I would like to thank the chief executives, management and staff of our subsidiaries and associate companies for their continued efforts in an increasingly challenging business environment.

Thank you.