

The directors of Hellaby Holdings Limited are pleased to present the annual report and financial statements of the company for the year to 30 June 2006.

Operating Results

Shareholders should note that the 30 June 2005 comparative figures referred to below have been re-stated to comply with International Financial Reporting Standards ("IFRS"), which Hellaby adopted with effect from 1 July 2005.

The Group's trading surplus before interest, tax, depreciation, amortisation and one-off transactions increased by 11% to a record \$47.6 million (last year \$43.0 million), and the pre-tax operating surplus increased by 14% to \$32.5 million (last year \$28.5 million).

However a significant increase in the Group's net tax expense to \$9.3 million (last year \$6.3 million) meant that the Group's tax paid surplus of \$23.1 million was in line with the \$23.2 million achieved last year.

This result represents an after tax return of 21% on average shareholders funds employed, with earnings per share of 46.9 cents (last year 47.1 cents), and net asset backing of \$2.29 per share (last year \$2.08 per share).

Comment on the trading performance is contained in the Managing Director's Review.

Financial performance of the Hellaby Group for the year ended 30 June 2006 is summarised as follows:

	2006 NZ IFRS \$000	2005 NZ IFRS \$000	2005 NZ IFRS \$000
Gross Trading Surplus	50,118	44,940	44,966
Administration	2,548	1,912	1,912
Trading Surplus before depreciation & interest	47,570	43,028	43,054
Depreciation	10,027	9,064	9,451
Amortisation	570	422	2,399
Interest	9,601	5,806	5,806
Net Trading Surplus	27,372	27,736	25,398
Other			
Surplus on sale of assets	8,850	778	778
Surplus on sale of shares	1,382	0	0
Goodwill impairment	(5,119)	0	0
Operating surplus	32,485	28,514	26,176
Less tax	9,349	6,296	6,296
	23,136	22,218	19,880
Plus one-off tax benefits	0	978	978
Operating surplus after tax	23,136	23,196	20,858
Earnings per share	46.9 cents	47.1 cents	42.4 cents

Dividend

A final dividend of 16 cents per share fully imputed has been declared (last year: 20 cents), payable on Friday 6 October 2006.

The dividend distributions for the year are summarised as follows:

Interim	15 cents fully imputed (last year: 19 cents), down 21%
Final	16 cents fully imputed (last year: 20 cents), down 20%
Total	31 cents fully imputed (last year: 39 cents), down 20.5%

In March 2006 Hellaby announced that it had initiated a dividend reinvestment plan, whereby shareholders could elect to receive shares in lieu of cash dividends, with the strike price for such shares being at a discount to the prevailing market value. Shareholders holding 17.6% of issued shares in Hellaby elected to take shares under this scheme at the time of the interim dividend, with shares issued at a discounted strike price of \$4.17 per share.

Hellaby directors continue to recommend the plan, and advise that any shareholder wishing to participate in the plan should contact the company's Share Registry, Computershare Investor Services Limited.

Capital Notes

Prior to year end Hellaby issued an investment statement and prospectus to raise \$50 million of Capital Notes at a fixed interest rate of 8.50% and a maturity date of 15 June 2011.

Strong interest for these unsecured debt instruments saw the offer oversubscribed in a matter of days, with the full \$50 million received during June 2006.

As conveyed to the market at the time of the prospectus, the proceeds of this issue were initially used to reduce bank indebtedness, and will over time be used to provide Hellaby with an increased ability to fund future acquisitions and target other growth opportunities.

Investments

As reported last year, on 1 July 2005 Hellaby acquired an 80% equity interest in Discount Shoe Warehouse, trading as Number 1 Shoe Warehouse ("No1").

The remaining 20% equity in No1 will be purchased on 31 August 2007, with the total purchase price being calculated on a multiple of earnings for the four years to 31 August 2008. Based on the latest forecast of earnings for No1, the total purchase price will be in the region of \$34 million.

On 1 July 2005 Hellaby increased its equity interest in shoe retailer R Hannah & Co ("Hannahs") from 85% to 94.2%. This shareholding was further increased from 94.2% to 100% on 29 March 2006.

On 9 June 2006 Hellaby convened a Special Meeting of shareholders to gain approval for the company to sell its 82.5% interest in Rodd & Gunn Ltd to parties associated with the company's chief executive officer, Mr. Mike Beagley. The transaction was approved by shareholders and the sale took place effective 30 June 2006.

Other significant transactions that occurred during the year under review included:

- TRS Tyre & Wheel Australia Pty Ltd being formed and opening a branch in Melbourne,
- Diesel Distributors Australia Pty Ltd acquiring the business of Melbourne based diesel parts company, B&E Spares Ltd,
- Hellaby selling five industrial properties in Wanganui and Levin tenanted by its subsidiaries TRS Tyre & Wheel Ltd and Levana Textiles Ltd,
- The sale by Hellaby of its 19.85% shareholding in NZ Wool Services International Ltd in May 2006,
- The sale of Hellaby's 75% interest in Oakleys Plumbing Supplies Ltd,
- The sale of the business of Teamwork Inteletrac Ltd, and
- The purchase of Automotive Supplies Thames.

Board of Directors

There were no changes to the composition of the Board during the year.

In June 2006 the Board announced that Mr. Paul Byrnes, having resigned as a director of the Hugh Green Group, confirmed his status as an independent non-executive director.

International Financial Reporting Standards

One of the implications of applying IFRS has been the need to complete annual impairment tests on the carrying value of goodwill and indefinite life brands. In May 2006 Hellaby announced to the market that a write-down of goodwill of up to \$5.0 million may be required as at 30 June 2006. The actual impairment write-down booked as a result of applying this approach as at 30 June 2006 was \$5.119 million, attributable to the carrying value of goodwill in the BBQ Factory, and Bindons (a division of Brake & Transmission), and intellectual property in Teamwork Inteletrac.

Looking Ahead

Forecasters see New Zealand's growth rate in the year ahead at less than 2 per cent, a further decline on previous years, and business confidence levels are similarly constrained. Hellaby has a diverse investment portfolio and leading positions in each of the sectors in which it operates, including automotive parts, forklift trucks and footwear – and this makes the group relatively robust to fluctuations in New Zealand's economic conditions. The company has taken several steps to strengthen its balance sheet over the past year, and is correspondingly well placed to take advantage of new business opportunities where these will add value for shareholders.



W J Falconer
Chairman