

**INTRODUCTION**

I am again pleased 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.

The 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 AB Equipment and Eurolift both 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 Elldex which was acquired on 31 January 2005.

The increased profit from the Retail division reflects record earnings by Hannahs and a part-year contribution from BBQ Factory which was purchased on 31 August 2004. However the profit of Rodd & Gunn was slightly below last year's result and the contribution from BBQ Factory was below expectation as outlined below.

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

We have also increased our shareholding in Hannahs from 85% to 94%.

I would like to take this opportunity to again acknowledge the hard work and dedication of the Chief Executives and staff of our subsidiaries and associate companies who have all made a significant contribution to the ongoing success of the Hellaby Group.

**AUTOMOTIVE DIVISION**

Turnover	\$91.0 million (2004: \$86.7 million)
EBIT	\$12.7 million (2004: \$11.4 million)

**Brake & Transmission (100% owned)**

Brake & Transmission ("BNT") imports and distributes automotive and commercial replacement parts to trade repairers throughout New Zealand. The company's administration and distribution facility at Albany services and supports 40 branches throughout New Zealand.

BNT experienced flat and difficult trading conditions throughout the year particularly in the first half. The second half produced improved sales and the gross profit rate was significantly improved. Overall sales increased 2.4% over the previous year.

During the year branches at Ashburton and Kapiti were opened. Ashburton has reported steady sales growth and Kapiti has exceeded performance expectations.

Since balance date three branches have opened at Glen Innes, Whakatane and Keri Keri. Initial sales results for these branches are encouraging. Further openings are planned for the second half of the financial year either by acquisition or greenfield establishment.

The outlook for 2006 is for modest sales growth and continued focus on gross margin improvement and the containment of costs.



BNT support Team Kiwi Racing who successfully compete in the V8 Supercar series in Australia

**Autolign (100% owned)**

Autolign is a specialist importer and distributor of automotive steering and suspension replacement parts. The business operates 9 branches, including 4 on-car workshops, and franchises 24 outlets under the Shock Shop brand.

Autolign experienced market conditions similar to BNT and while sales increased by 6% over the previous year this was assisted by the acquisition in February of John Bates Suspension in Palmerston North ("Bates").

Bates, an automotive and commercial steering and suspension importer, holds the New Zealand distribution rights for the Powerdown commercial suspension product. This product has significantly enhanced the Autolign range and is intended to be also distributed through the BNT branch network.

In April Autolign opened a branch at Mt Maunganui to service the Bay of Plenty area. Further regional branches are planned for the current year.

The outlook for 2006 is for further improvement in both sales and profitability.

**Diesel Distributors (100% owned)**

New Zealand

Diesel Distributors is a wholesale distributor of diesel fuel injection, turbocharger and ancillary diesel engine parts, based in Penrose Auckland and distributing throughout NZ and the Pacific Islands.

The past year has seen a continuation of the level of aftermarket sales of diesel fuel injection and turbocharger business.

The introduction of lower sulphur diesel fuel has resulted in more vehicle manufacturers introducing diesel powered vehicles to their product ranges.

New diesel fuel injection and turbocharger technology is exceeding emissions demands, and thus it is expected that diesel powered vehicles will rapidly increase in numbers over the next few years.

Diesel Distributors is well positioned for the expected market growth.

Australia

Diesel Distributors Australia is a wholesale distributor throughout Australia of diesel fuel injection and ancillary diesel engine parts.

The business has continued to steadily grow in the past year with a Sydney Branch opening in February 2005 in addition to the Brisbane Branch which opened in December 2003.

The company has also purchased two small diesel fuel injection distribution businesses, Combined Diesel Distribution in Sydney and Dipaco Diesel Parts Australia in Newcastle. This has given Diesel Distributors Australia a wider product range and an increased customer base.

Opportunities for further expansion into Victoria and Western Australia will be considered to further grow the business.

**INDUSTRIAL DIVISION**

Turnover \$127.4 million  
(2004: \$114.5 million)

EBIT \$10.0 million  
(2004: \$9.1 million)

**AB Equipment/AB Rental (100% owned)**

With world leading products, and excellent customer support, AB Equipment again had a very strong year and achieved record earnings before interest and tax.

The AB Equipment products fit neatly into three clearly focused groups:

**Materials Handling**

- Toyota (Japan) forklifts from 1.5 to 8.0 tonne. Toyota continue to lead the world with innovative design, ergonomics and safety. AB Equipment, the NZ market leader, moved even further ahead of the competition during the year.
- BT (Sweden) battery electric warehousing equipment including reach trucks, order pickers, stackers and low lift trucks. A highlight of the year was the supply of several high value very narrow aisle turret trucks into sophisticated warehouse operations.
- Kalmar (Sweden) "big" forklifts for the port and timber sectors with lift capacities from 12 tonne to 45 tonne.
- Comac (Italy) floor care products (scrubbers and sweepers).
- Moffet (Ireland) truck mounted "piggy back" forklifts.
- Johnston (Australia) road sweepers are the clear market leader, with wide acceptance from local authorities and major corporate roading contractors.

It is very pleasing to report that AB Equipment is now the NZ dealer for Raymond Forklifts, the market leader of warehousing material handling equipment in North America. Raymond, like BT, is wholly owned by Toyota Industries.



AB Equipment's world leading range of forklifts incorporating Toyota, BT and Raymond.

Construction Equipment

- Sumitomo (Japan) maxi excavators to 45 tonne. AB Equipment is a respected supplier and have built excellent brand recognition and loyalty across the civil and forestry sectors.
- Sakai (Japan) compaction equipment. AB Equipment enjoy a dominant position in the road roller market with this excellent product.
- IHI (Japan) mini excavators to 8 tonne.
- Vermeer (USA) tree chippers and underground directional drills.
- Schwing (Germany) concrete and grout pumps. Acceptance of this world leading brand is now building in New Zealand.

Transport

- HIAB (Sweden) truck mounted cranes. Our sales and support teams are very focused on the world's most instantly recognised truck mounted crane, with a resultant and substantial increase in market share.
- Jonsered (Finland) cranes. AB Equipment is the dominant supplier of Jonsered cranes (either truck mounted or static) to the specialist forestry/sawn timber industry.

AB Equipment also has an extensive customer support network.

- AB Equipment prides itself on its ability to "back up" its products through superior service and parts supply, and it is this that differentiates us from our competitors.
- Our 14 branch network has been enhanced and future proofed with:
- New purpose built premises at Wellington, Christchurch and Timaru;
- Leasing of additional premises adjacent to the Hastings branch and relinquishing the lease on the Napier depot.
- Renewing the Head Office and Auckland branch lease at Manukau for a further 7 years, and a significant modernisation of the facility.
- Upgrading and extending our Invercargill branch facility.
- AB Equipment provides professional on-site customer support with a fleet of 108 modern, prominently sign-written service vehicles. Our well qualified

technicians service the company's rental fleet as well as providing planned maintenance and break-down support to a vast number of customer-owned equipment.

AB Rental also had a strong year, and further enhanced its position as New Zealand's leading, and largest forklift rental company, offering both short term and long term rental of 3 years or more.

#### **TRS Agri-Tire (100% owned)**

TRS Agri-Tire ("TRS") remains New Zealand's leading importer, manufacturer and supplier of tyres, wheels and wheel componentry for a wide range of machinery including agricultural, small implement, industrial specialist truck, crane and port machinery applications. The business produced another sound result, and an increase on last year. A strong focus for the year was the co-ordinated reduction in inventory, implementation of inventory management practices and the rationalisation of product range.

TRS's Wanganui based business, with a product and service offering revolving around the NZ agricultural market, has expanded its operations to now include the industrial forklift market.

The establishment of its Christchurch industrial branch has resulted in sales growth and provided the "blue print" for the recently opened industrial branch at East Tamaki, Auckland. The April 2005 acquisition of the tyre business of Cascade NZ has provided a base for the Auckland business. This exciting opportunity is expected to provide significant growth for TRS in New Zealand's forklift market and growth in other industrial product lines as the business develops.

Relationships with world leading tyre and original equipment manufacturer suppliers have been further strengthened to provide opportunity for further growth.

#### **Eurolift (100% owned)**

Eurolift is an equipment sales and aftermarket support business in New Zealand with:

- Materials handling equipment from Linde AG Germany;
- Mini excavators from Kubota Japan;
- Parts and service support for Linde and Kubota products; and
- Long and short term rental of Linde materials handling products.

Eurolift exceeded both budgeted sales and EBIT expectations for the 2005 financial year which is particularly pleasing as there was increased competition in the construction equipment market and the stronger Euro dollar had a negative impact on the price of Linde materials handling equipment.

The increase in sales improved the market share for both Linde materials handling and Kubota mini excavators. This had a corresponding rise in profile for Eurolift in these markets.

The long term rental business grew in line with sales. The expanded rental fleet in the lower South Island was instrumental in establishing a new service branch in Dunedin. Eurolift also has branches in Auckland, Hamilton, Kinleith, Whakatane and Christchurch.

Eurolift has strong relationships with overseas supply partners and customers and in partnership will continue to develop market opportunities.



Tractor on Nokian tyres supplied by TRS Agri-Tire.

## RETAIL DIVISION

Turnover	\$141.6 million (2004: \$99.3 million)
EBIT	\$10.5 million (2004: \$8.8 million)

### Hannahs

Hannahs, New Zealand's largest specialty shoe retailing chain, returned another record profit in the 2005 financial year.

Sales increased by approximately 8% and the strong New Zealand dollar led to a small increase in the gross profit margin.

However, the costs of new store openings impacted on profitability and despite tight control of overheads, the increase in profit over the prior year's record profit was modest.

The Pulp business in Australia had slower momentum in the second half and as a consequence recorded a profit similar to the previous year despite opening six more stores.

The Hush Puppies business performed above expectations, but also had a slower last two months of the financial year.

During the year one new Hannahs store and three Hush Puppies stores were opened in NZ and six Pulp stores in Australia. At year-end the group was operating 56 Hannahs stores, 16 Pulp stores and 6 Hush Puppies stores.

Over the next twelve months there are plans to open two new Pulp stores, one Hush Puppies store and two Hannahs stores.

The outlook for 2006 is far more uncertain given the difficult retail environment encountered over the past few months.

The focus will be on growing sales at levels that are sustainable and managing costs and margins.

### Rodd & Gunn

Rodd & Gunn is a leading up-market menswear brand and retailer with an extensive network of stores throughout New Zealand and Australia.

In the 2005 financial year Rodd & Gunn had a slightly softer trading result after the previous year's outstanding result with earnings before interest and tax declining by approximately 5% on last year's record result.

The year was characterised by inconsistencies across countries, regions and cities which made it difficult to identify particular issues.

During the year one new store was opened in New Zealand and five in Australia. Rodd & Gunn now operate a total of 42 stores with 18 stores in NZ and 24 in Australia.

For the coming year two new stores are planned for NZ with one closure.

In Australia there are no planned openings at this time

The modest level of new store openings will enable a focus on maximising returns on the now substantial store network.

The outlook for 2006 is cautious, but we are confident of improving on the previous year's result.

### BBQ Factory (100% owned)

BBQ Factory is New Zealand's leading outdoor living and home heating company with 21 stores located from Whangarei to Invercargill. The majority of stores are company owned with some franchised outlets operating primarily in provincial locations.

Hellaby acquired BBQ Factory on 31 August 2004. Earnings in the 10 months since acquisition were below expectation due to a combination of factors including adverse weather conditions, which affected both sales and margins in the summer and winter seasons, and one-off restructuring costs.



New Hannahs store at Queensgate,  
Lower Hutt, New Zealand

The main product categories serviced by BBQ Factory are:

- Barbeques – the origins of the company go back over 25 years designing and making barbeques. Nowadays barbeques are sourced from around the world to cover all levels of the market from the basic Kiwi Backyard model to the latest Titan 10 burner for the outdoor cooking enthusiast. Internationally renowned brands such as Weber, Beefeater and Brinkman as well as the New Zealand icon brand Masport are represented and a host of house brands are available to deliver great value for money. To support the huge range of barbeques the company prides itself on its selection of accessories as well as parts to service what we sell.
- In the autumn and winter seasons BBQ Factory warms New Zealand homes with a great range of wood fires and gas heaters. New Zealand's two leading brands, Kent and Masport will be found at BBQ Factory next season.
- Spa pools have been a huge growth area for BBQ Factory in recent years and we are now the dominant player in the spa market. Brands represented by BBQ Factory include Leisurerite and Rotaform from New Zealand, Signature from Australia, Coast from Canada and Bullfrog from USA. The secret to our growth in spas is a great range of the world's top brands in stock at our stores, backed up by expert service and available at value for money everyday competitive prices.
- Outdoor furniture is a product range that BBQ Factory will concentrate on for growth in the coming years. To date it has been a small part of our business but we have now sourced two wonderful ranges from leading international suppliers.

Since Hellaby's acquisition new stores have been opened in Taupo, Porirua, Timaru and Invercargill. The licensee store in Nelson has been bought back and negotiations are well progressed to buy back 4 franchised stores. The focus for BBQ Factory in the future will be on continuing to offer a great range of product, mostly available ex stock at good everyday value for money prices supported by the best service back-up in the country.

Some of the initiatives taken at the BBQ Factory this year have had the effect of reducing short term profit but the forecast for next year reflects a healthy increase in the profit contribution and the future for this lifestyle retailer looks very bright.

## DIVERSIFIED COMPANIES

Turnover	\$30.2 million (2004: \$30.8 million)
EBIT	\$2.5 million (2004: \$0.4 million)

### Levana Textiles (100% owned)

Levana Textiles manufactures and markets a range of high quality, high performance, branded, knitted textiles primarily for garment makers in New Zealand and Australia covering sectors which include swimwear, children's wear, performance sportswear, outdoor adventure wear, intimate apparel, men's and ladies fashion.

Despite the challenges of cheaper textile imports and offshore garment assembly Levana improved sales on last year by 6% with profitability significantly above budget. The strength of the New Zealand dollar gave a benefit on costs but had a negative effect on export sales income. Sales to Australia were lifted from late 2004 after the closure of a key competitor in that market.

The year has seen a significant change in the leadership and management of the company with strong focus on improving all aspects of its operation by targeting lead times, delivery performance and quality as the key areas of positive impact on sales growth. There has been a lift in staff morale and a positive attitude about the company's future. Investment in new knitting equipment, computers and telephones has contributed toward enhancing performance and capability. These changes are supporting the improved delivery and customer service of high quality fabrics to all of Levana's customers.



New Rodd & Gunn store at Queensgate, Lower Hutt, New Zealand.

Growth in existing markets, especially in Australia, by securing new customers plus the drive for export sales will be the primary contributors to further sales growth. The first sales to South Africa were made in the last quarter with very good potential as a valuable export market. The change to New Zealand Merino Wool was implemented in February with excellent response from the market on the quality and handle of the fabric resulting in steadily increased sales. Merino wool is the mainstay of our export drive into the USA and we have sampled to one significant customer with further sampling to another in September. Export growth will be direct or through local garment manufacturers; already there are a number of large companies taking merino for export sales.

Levana is moving its sales focus towards the upper end of the textile market with high quality fabrics thus avoiding the direct competition with the cheaper imported textiles and garment market. The strength and growth of the business will be through quality of product and customer service with shorter delivery lead times and unique offerings.

#### **Oakleys Plumbing Supplies (75% owned)**

Oakleys, a Christchurch based general plumbing supplies merchant with a long history of serving the needs of domestic and trade customers throughout Canterbury, achieved record sales and profitability during the year.

The outstanding performance of Oakleys was assisted by a strong construction market in Canterbury but also owed much to the continued focus on customer service and the strong relationships the company developed with trade customers in the region.

In addition, the initiatives taken by Oakleys management over the last two or three years to develop its sound position in the bathroom renovations market has assisted the company's growth.

#### **Elldex Packaging (100% owned from 31 January 2005)**

Elldex is a medium sized integrated manufacturer and importer of retail, consumer and industrial flexible plastic packaging.

The company is New Zealand's largest importer and distributor of retail checkout bags and a leading manufacturer of high density polyethylene ("HDPE") packaging materials used extensively in the horticultural, meat, processed food and retail sectors.

Elldex operates a HDPE film extruding and converting plant at Albany on Auckland's North Shore and recently invested in a state-of-the-art recycling plant, enabling it to reduce raw material costs and meet industry recycling targets.

The company was privately owned and operated prior to the Hellaby acquisition in February this year. A new CEO was appointed in May and is assisted by the previous owner and an experienced management team.

The Albany manufacturing and importing operations are supported by sales and distribution facilities in Auckland and Christchurch, and a recently established sales office in Melbourne Australia.

Elldex has built a solid reputation for quality, service and an ability to react quickly to changing market requirements. The company's reputation has helped it establish long-term supply relationships with many of New Zealand's leading supermarkets, retail chains and major industrial users

Elldex Australia has the opportunity to mirror the success of its New Zealand operation as it continues its expansion into the Australian flexible packaging market.



At home with the BBQ Factory

The company has recently secured a 3 year sole-supply contract supplying retail shopping bags to over 1,200 outlets of one of Australia's leading retail chains. Further growth is expected in the health, distribution and retail sectors in the coming months.

Elldex has experienced excellent sales and earnings growth in recent years, a trend that looks set to continue as the company expands across the Tasman and extends its leadership position within key market sectors in New Zealand.

#### **Teamwork Inteltrac (55% owned)**

Inteltrac was merged with sales distributor Teamwork in November 2004, forming a composite marketing and systems implementation company called Teamwork Inteltrac.

The new company has further developed Inteltrac's mobile data products, focussing on office processing and dispatch functions for transport and service industries.

This includes the company's MDT 400 mobile data terminal plus independently sourced specialist industry software from leading IT developers.

The mobile data industry has grown considerably in the past year, with many and varied competitors entering the environment.

Teamwork Inteltrac has significant business advantages in both products and system solutions complete with implementation and project management. The main emphasis is on real-time office processing, dispatch and back office integration.

This has been recognised in securing leading industry contracts within the transport, courier, plumbing and general service based industries.

The company has focused on product development and market awareness to position itself for a robust and profitable next 12 months.

#### **New Zealand Wool Services International (20% owned)**

The year under review was a difficult one for New Zealand Wool Services International ("WSI"). While a tax paid profit of \$0.98 million was achieved, this is lower than forecast, short of what has been reported in recent years and significantly less than last year's \$3.29 million tax paid profit.

Three factors contributed to this less than satisfactory result:

- The company's 65 per cent owned North Island scour at Whakatu was upgraded during the year. Whilst the upgrade was successfully completed, the project took considerably longer than anticipated, restricting production and therefore revenue from the plant for six months.
- The rate of the New Zealand dollar against the United States dollar varied from .63 in July 2004 to an all time high of .74 during the financial year, with a significant part of the period at the upper end of that range. Trading successfully when the New Zealand currency is at this level is very difficult. In addition, the high New Zealand dollar also adversely affected the value of the company's wool stocks. The disruption at Whakatu further exacerbated an already difficult trading situation.
- Significant cost increases at Kaputone and Whakatu that occurred for inputs such as raw materials, power and fuel and a major reduction in wool grease prices further eroded profitability.

The upgrade of the scour at Whakatu was the most significant development for WSI during the 2005 year and one of the most significant capital investments in the New Zealand wool scouring industry in the past decade. Its completion has considerably enhanced the company's position in the industry, ensuring adequate capacity and high levels of quality control that will enable WSI to produce a product of the highest standard.



Levana Textiles fabric Stock Service facility in Levin.

Despite the difficulties of the past year, WSI is looking to the future with optimism, knowing that it is in a solid position to recover and move positively forward. The main reason for this is that with the completion of the Whakatu upgrade, and along with the company's sister plant Kaputone, WSI owns two of the foremost technologically sophisticated and efficient wool scourers in the world, enabling superior levels of product and service to the company's international customers.

#### **Energy Intellect (25% owned)**

Energy Intellect ("Ei") is an Australasian-based technology and service company serving the automated meter reading sector of the electric utility industry in several countries. The company develops advanced poly-phase electric meters, sophisticated modems operating on the GSM/GPRS and CDMA cellular networks, and a regulatory-approved meter data platform for retrieving consumption data named iE2.

#### **iE2 Data Platform**

The iE2 meter data platform is the company's flagship software product, and the latest version of iE2 operated via the Internet is being rolled-out to clients this year. NGC (100% owned by Vector) is migrating onto iE2 this month, and Stream Information (70% owned by Vector, 30% owned by Ei) is to migrate its meters onto iE2 later this year. The iE2 platform will process the meter data for over 80% of the remotely-read market in New Zealand, and 25% of the Australian market.

#### **Victory Meter**

Ei is developing its next-generation meter, the Victory Meter that could include near-field wireless communications as an alternative for utility clients on manual meter reading, the so-called "sneaker network", who are not ready to move to remote meter reading using the cellular telephony network. A major driver for the new Victory Meter is to substantially reduce its per-unit manufacturing cost.

#### **WIPG & WIPC Cellular Modems**

Ei also sells a range of robust wireless modems specifically designed for data communications across the two dominant cellular systems, GSM/GPRS and CDMA.

#### **Marketing Initiatives**

Ei is undertaking several new marketing initiatives this year. The first is to sell the use of the iE2 platform in Victoria, Australia where the State has made the bold move of requiring utilities to roll-out over 2.2 million interval meters between 2006 and 2013. A second initiative is sub-metering, the installation of interval meters to read the electric consumption of individual tenants in multi-tenant buildings such as apartment buildings or shopping malls. A third initiative is focused on expanding the market in New Zealand, where Ei believes that the uptake of interval meter bundles would significantly increase if prices were reduced. A fourth initiative is to sell the WIPG/C to clients outside of the utility industry where machine-to-machine data communications is growing exponentially.

The growth opportunities due to the changing energy sectors in both Australia and New Zealand will create significant opportunities for Ei over time.

#### **Bombay Petfoods (49% owned)**

Bombay Petfoods, trading under the name JIMBO, has a dominant share of the "wet-petfood" market in New Zealand.

During the year Bombay Petfoods increased its representation in the market place, increased sales by 6% and achieved a modest profit increase over last year's record result.

The company grew its market share by approximately 3% and now has a total market share approaching 65%.

Bombay Petfoods is increasing its product range to attract new customers to the category and this, backed up by a promotional campaign, will support further growth in the coming year.



Elldex Packaging's premises at Albany, Auckland.

## NEW ACQUISITIONS

### No1 Shoe Warehouse (80% owned)

On 1 July 2005 Hellaby acquired an 80% shareholding in No1 Shoe Warehouse with a binding agreement to acquire the remaining 20% on 31 August 2007.

No1 Shoe Warehouse is New Zealand's largest specialist discount shoe retailer. The business operates predominantly in a different market segment to Hellaby's other shoe retailing interests and is therefore very complementary to our existing businesses.

The company currently operates 30 stores throughout the country and has plans to increase this to over 40 stores in the next three years as well as continuing the upgrade of existing smaller stores.

No1 Shoe Warehouse is currently enjoying strong growth and is forecasting sales of approximately \$65 million over the next 12 months.

### THE OUTLOOK

Trading conditions remain challenging for a number of the Group's subsidiaries and a range of other factors including higher oil prices, a potentially lower New Zealand dollar and political uncertainty post the election may have a negative impact on the New Zealand economy over the next 12 months.

However we are confident that strength of our existing businesses and the contributions from the newly acquired businesses will lead to a sound improvement in the Group's trading surplus and after tax profit in the coming year.

Although borrowings to fund recent acquisitions have increased the Group's debt levels, we remain in a sound financial position and believe that we can continue to grow the company and maintain a high dividend payout ratio.

We continue to be focused on achieving above market returns to shareholders through increased dividends which we believe will lead to a continued growth in Hellaby's share price over time.



David Houldsworth  
Managing Director



No1 Shoe Warehouse's retail store at  
The Atrium Shopping Centre, Auckland