

## MANAGING DIRECTOR'S REVIEW

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### INTRODUCTION

I am pleased to report that the Hellaby Group achieved an increase in its trading surplus before tax, depreciation, amortisation, interest and one-off items to a record \$47.6 million and an increased pre-tax operating surplus to a record \$32.5 million.

However, and as anticipated last year, the Group's tax expense increased significantly because the various tax benefits the Group has enjoyed in prior years are no longer available, and as a result the Group's operating surplus after tax of \$23.1 million was in line with the \$23.2 million achieved last year on an IFRS adjusted basis, but is some 11% ahead of the profit reported last year under NZ GAAP accounting.

The increased trading surplus was a result of higher contributions from a number of the Group's trading divisions.

The Automotive, Retail and Diversified Companies divisions all recorded increased profitability with Brake & Transmission, AB Equipment, Eurolift, Diesel Distributors and Rodd & Gunn all achieving increased earnings before interest and tax.

The trading surplus also benefited from a full year's contribution from Elldex, and a significant contribution from newly acquired No1 Shoe Warehouse.

Offsetting these were reduced contributions from Hannahs and TRS Tyre and Wheel (which was affected by reduced spending in the agricultural sector), and a disappointing result from BBQ Factory.

To a large extent the past year has been a period of rationalisation and consolidation with the sale or disposal of a number of smaller or non-core businesses and assets, and the acquisition of 100% of Hannahs to consolidate our dominant position in the New Zealand shoe market.

These transactions were undertaken to provide funding for future acquisitions and to strengthen the Group's financial base to support future growth.

In addition, the Group raised \$50 million through a very successful Capital Notes issue which will provide additional funds for future growth.

Once again I would like to thank the Chief Executives and staff of our subsidiaries and associate companies for their contribution to the Group's result this year and to the ongoing success of the Hellaby Group.



### AUTOMOTIVE DIVISION

Turnover	\$100.9 million	(2005 : \$91.3 million)
EBIT	\$14.0 million	(2005 : \$12.7 million)

#### Brake and 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 now supports 44 BNT branches and 10 Autolign branches throughout New Zealand.

BNT experienced flat market conditions during the year as a result of increased vehicle operating costs. Despite competitive trading conditions, overall sales increased by 4.7% over the previous year. Margins were improved by a combination of revised product sourcing and pricing strategies.

New branches at Whakatane and Kerikeri exceeded expectations and Glen Innes is trading at its anticipated level.

The acquisition of Automotive Supplies Thames in November gave BNT an additional branch and is included in the BNT result. The business is well established and gives a sound base on which to develop sales in the Hauraki, Thames and Coromandel areas.

Further new branches are planned for the coming year with 2 greenfield operations and a possible acquisition. The outlook for 2007 is for conservative sales growth and a continued focus on gross margin improvement and the containment of costs.

#### Autolign

Autolign is a specialist importer and distributor of automotive steering and suspension replacement parts. The business operates 10 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 9.7% over the previous year this was assisted by a full year's trading from John Bates Auto Supplies acquired in February 2005, and a planned strategy to lift its profile as a supplier of products for modified and performance vehicles.

The result also included a full year's trading from the Mt Maunganui branch. In June 2006 an additional branch was opened in Dunedin to serve the lower South Island. There are no plans for additional branches at present.

The strategy for 2007 is to build on the specialist areas of the business to provide increased sales.



Richard Mason - Rally NZ, sponsored by BNT

**Diesel Distributors (100% owned)****New Zealand**

Diesel Distributors Limited is Penrose, Auckland based, and is a wholesale distributor of a wide range of specialised products relating to diesel fuel injection, turbochargers and glow plugs for the New Zealand and South Pacific markets.

The company is the market leader in all sectors of the industry with authorised distribution for:

- Diesel fuel injection brands Zexel, Bosch, Delphi, Denso, Stanadyne and Dipaco,
- Turbocharger brands Garrett and IHI,
- Glow Plug brand HKT,
- Diesel fuel injection test equipment brands Bosch and Hartridge.

The 2005-2006 year included very strong capital equipment sales as a result of the introduction to the NZ market of later model diesel fuel injection equipment such as Common Rail systems. This in turn has seen a sharp increase in new European model passenger cars in the market. This increase, coupled with lower sulphur diesel fuel, will see the trend continue.

**Australia**

Diesel Distributors Australia Pty Limited has branches in Brisbane, Sydney and Melbourne, and is a wholesale distributor of a wide range of diesel fuel injection parts and glow plugs throughout Australia.

The company has established approximately 25% market share since late 2003 with authorised distribution for:

- Diesel fuel injection brands Zexel, Bosch, Denso and Dipaco.
- Glow plug brand HKT.

The 2005/06 year resulted in continuing improvements in sales from the Brisbane and Sydney branches. The April 2006 acquisition of B&E Diesel Sales in Melbourne has extended the market coverage and further opportunities during 2006/07 will see a continuing increase in market share.



Diesel Distributors Sydney branch in Wetherill Park

## INDUSTRIAL DIVISION

Turnover	\$129.9 million	(2005 : \$128.9 million)
EBIT	\$9.6 million	(2005 : \$10.0 million)

The EBIT return from the Industrial Division was slightly below last year's record result but is considered satisfactory due to difficult market conditions.

EBIT of AB Equipment / AB Rental increased slightly over the prior year but the EBIT of TRS Tyre & Wheel fell due to difficult trading conditions in the rural sector.

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

AB Equipment have now completed their branch network upgrade, with a new branch opened in Hamilton during the year. Invercargill and Mt Maunganui premises were also expanded and upgraded. AB Equipment now have a modern network of 14 company owned branches, all offering the same professional service.

AB Equipment's products fit into clearly focused product groups:

#### Materials Handling

- Toyota (Japan) forklifts from 1.5 to 8.0 tonne. AB Equipment continue as the market leader in this segment, and are recognised for productivity, safety and ergonomics.
- BT (Sweden) battery electric warehousing equipment, including reach trucks, order pickers, stackers and low lift trucks. These are superbly engineered machines with strong acceptance from our New Zealand customers.
- Kalmar (Sweden) "big" forklifts for Port and heavy lift applications have capacities from 12 to 45 tonnes. It is pleasing to note that the Port of Napier took delivery of a further 45 tonne full container handler and an empty container handler during the year.
- Raymond (USA), a wholly owned Toyota company are the market leader in North America for warehousing materials handling products, with very technically sophisticated reach trucks and order pickers.
- Comac (Italy) floor care products (scrubbers, sweepers and vacuum cleaners).
- Moffett (Ireland) truck mounted "piggy back" forklifts.
- Johnston (Australia) roadsweepers are the clear market leader with wide acceptance from local authorities and major roading contractors.



Sumitomo dash 5 excavator -  
Real performance



Toyota Series 8 forklift -  
The mastery of true potential

### Construction Equipment

- Sumitomo (Japan) maxi excavators to 45 tonne. Further gains were made in the civil engineering and forestry sectors with Sumitomo excavators well accepted as advanced and reliable equipment.
- Sakai (Japan) compaction equipment. Robust and reliable, AB Equipment enjoy a market leadership position in the road roller market.
- IHI (Japan) mini excavators to 8 tonne.
- Vermeer (USA) tree chippers and underground directional drills enjoyed another strong year both locally and in several Pacific Islands for which AB Equipment is the distributor.
- Schwing (Germany) concrete and grout pumps.

### Transport

- Hiab (Sweden) truck mounted cranes. Hiab continues to build its market position, with world leading technology justifying its position as the generic brand in the truck mounted crane market.
- Jonsered (Finland). With the forestry and timber sectors starting to show signs of improvement, our truck mounted and static cranes, as clear market leader, have a positive future.

### Customer Support

AB Equipment has an extensive customer support network, and prides itself on the level of support it offers its customers through:

- A comprehensive parts infrastructure, with state of the art IT management tools providing live, real time information on national parts holding, with good visibility into our principal suppliers' inventory systems.
- A dedicated focused team of service managers and specialist service technicians operating from all of our branches covering New Zealand with a fleet of over 100 distinctive "travelling billboard" service vehicles.
- Excellent reporting functionality from our fully integrated computer / software system, able to provide our customers with the fleet management information that is becoming ever more important in the efficient operation of the logistics supply chain.
- Forklift driver courses for a wide range of machines. We train over 6,500 operators a year on the safe use of forklifts.

With New Zealand's largest rental fleet of forklifts, AB Rental offers customers a wide range of rental options from 1 hour to 1 month to 5 year terms.



AB service technicians carrying out planned maintenance on Toyota forklifts

AB Equipment's long term rental customer base includes many of New Zealand's most well known companies ranging from manufacturing, warehousing, ports, food processors, fruit and vegetable growers etc.

AB Equipment is "A Customer Driven Innovative Team".

### **TRS Tyre & Wheel (100% owned)**

During the year TRS Agri-Tire changed its name to TRS Tyre & Wheel to more accurately reflect the broader market and product focus of the company.

Because the Agriculture sector was very depressed during the year, TRS did not perform to expectation, but nevertheless reported a solid result.

TRS continues to be the market leader in New Zealand for the importing, manufacture and distribution of wheels, wheel componentry and tyres to a wide range of market segments including Agricultural, Implement, Industrial, Specialist Truck, Crane and Port Machinery applications. One of the company's key strengths is its ability to provide wheel solutions where a customer's existing configurations may not be suitable for the required application and a wheel redesign is necessary.

A feature of the last 12 months has been the growth in the Industrial forklift business in both Christchurch and Auckland, which is predicted to continue to grow over the next 12 months.

Although Wanganui is still the business base, the Christchurch branch has been expanded and now provides a full range of products and services, providing its South Island customers improved lead times with either same day or overnight delivery. The Auckland operation grew steadily throughout the year and has developed a solid customer base which will provide a platform for continued expansion.

In July 2006 TRS announced the expansion of the business into Australia, with the establishment of a manufacturing warehouse in Melbourne. This business will primarily provide wheel solutions to the new and used tractor, farm implement and specialist truck markets in Australia. It is an extremely exciting and significant opportunity to grow the TRS business for the future.

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

Eurolift NZ Limited is the New Zealand distributor for Linde Materials Handling products, Kubota construction equipment, Kubota generator sets and Toku hydraulic hammers.

Eurolift enjoyed another successful year and it is pleasing to report that the last 10 years have seen Eurolift grow revenue on average 22% per annum.

Linde MH (one of the world's largest materials handling manufacturers) is a German based manufacturer with factories located in the UK, France, USA and China.

Superior design and advanced technology is the hallmark of Linde Materials Handling products. Linde are one of the few companies manufacturing the full range of Materials Handling products from small battery electric walkies to wire guided VNA (Very Narrow Aisle) and Heavy Duty Container Handling Equipment. Eurolift has represented Linde throughout New Zealand and the South Pacific since 1994.

Kubota are a world leader in the manufacture of Hydraulic Excavators (up to 6.0 tonne). This year Kubota launched two new models in the "zero" tail swing range.



In January 2006 Eurolift were appointed the New Zealand distributor for Kubota generators

TRS Tyre and Wheel solution for Westland Agricultural contractor



In January 2006 Eurolift were appointed the New Zealand distributor for Kubota generators. All Kubota generators are powered by Kubota diesel engines renowned for durability and reliability. The range available from Eurolift starts with the smaller 6kVA version through to the "super silent" 30kVA models operating at only 61dB(A).

Eurolift's business includes new and used equipment sales, leasing, spare parts, servicing and operating training. Eurolift's Head Office is in Auckland with branches in Hamilton, Kinleith, Whakatane, Christchurch, Dunedin and a new service operation in Nelson.

#### RETAIL DIVISION

Turnover	\$219.5 million	(2005 \$142.9 million)
EBIT	\$ 13.7 million	(2005 : \$11.2 million)

#### Hannahs (100% owned)

Hannahs, New Zealand's largest specialty shoe retailing chain, had a disappointing 2006 after two years of strong profit growth, with sales and margins under pressure due to a more competitive retail environment.

The Hush Puppies business had constrained sales but this was offset by stronger margins.

Pulp in Australia had a very up and down year, with New South Wales strong and Queensland weak.

During the year the company opened three new Hannahs stores, one Hush Puppies store and two Pulp stores taking the total number of stores to 81 (56 Hannahs and 7 Hush Puppies in New Zealand and 18 Pulp in Australia).

The outlook for 2006/07 is more positive, and strategies are being implemented to compete more profitably in a very competitive category. Only one new store is opening, at Sylvia Park, with one closure keeping the number of stores in New Zealand at 56.

Hush Puppies is a stable and solid business that is not subject to wild competitive or fashion swings and we expect another solid contribution from the 8 stores that will be operating in 2006/07, following the opening of a new store at Sylvia Park.

The Pulp business is focused on a consolidation period after several years of aggressive expansion. No new stores are planned and all efforts will go into improving the performance of several poor performing stores.

Overall Hannahs is committed to returning to the profit levels of the previous two years through tighter inventory management, more focused advertising, and new staff incentive programmes.

#### Rodd & Gunn (sold with effect from 30 June 2006)

Rodd & Gunn reported a solid year with good profit growth on last year.

The growth was primarily due to increased margins and good cost control. Sales showed a modest comparable store gain.

At the end of the financial year Rodd & Gunn operated 19 stores in New Zealand and 24 stores in Australia for a total of 43 stores.

At 30 June 2006 Hellaby sold its interest in Rodd & Gunn for a substantial gain.



Hannahs Queenstown -  
opened December 2005

### No1 Shoe Warehouse (80% owned)

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

The company had a very strong first year under Hellaby ownership and made a significant contribution to the Group's profit.

For the year to 30 June 2006 the company's turnover increased by 42.2% with same stores sales 20.8% ahead of the prior year.

At balance date the company operated 37 stores nationwide. During the year the company opened six new stores in; Te Rapa, Belfast in Christchurch, Gisborne, Masterton, Papakura and West City Mall in Henderson. No1 also moved Napier and Palmerston North stores into new premises and opened temporary stores in Nelson and Bayfair in Mount Manganui.

In the 2006/07 financial year No1 opened a new store in Pukekohe in July, will open a replacement store in Whakatane in September, and will open new stores in New Plymouth in October, and Westgate (Auckland) and Eastgate (Christchurch) in December. No1 plans to open a new store inside Westfield's Manukau Mall in March 2007 and relocate Nelson from a temporary to a permanent location in May 2007. The company also has two further sites under consideration and should have 43 stores by June 2007.

No1 is budgeting to increase turnover 18% for the 2006/07 financial year. However, due to the fall of the NZ dollar compared to the US dollar, and the tightening trading conditions, the company is forecasting only a modest increase in profits.

The company will progressively drop the word 'warehouse' from its present name resulting in the company brand becoming 'No1 Shoes'. No1 has commenced new marketing initiatives to communicate this subtle change to its customers, one of which is a complete upgrade of its website. The company will only change the store branding as branches are upgraded, therefore this strategy could take 2-3 years to fully implement. No1 has started a buying initiative to further improve the quality of shoes so it can offer exceptional value for money, and will also introduce more brands at discount prices to ensure consumers get a "real bargain" when shopping at No1.



**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 the stores are company owned, with some franchised outlets operating primarily in provincial locations.

The past year's performance was affected by an overstocked situation which impacted the result on two fronts. Firstly, overstocked lines were discounted to clear, reducing the gross profit, and secondly, costs were higher due to extra storage, stocking and handling costs. Profit sustained a significant negative impact during the year as a result of these non-recurring items.

Management information and reporting has been restricted by an out-of-date IT system, which has been replaced from the beginning of the 2006/07 financial year.

The main product categories serviced by BBQ Factory are:

- Barbeques – with a 26 year history of designing, making and now sourcing barbeques from all around the world, nobody knows as much about barbeques as the BBQ Factory. With a range that covers portable charcoal and gas units right through to sophisticated full stainless steel outdoor kitchens and internationally recognised brands such as Weber, Beefeater, Brinkman and Fiesta, along with our extensive range of proven house brands and local icon Masport, no other retailer comes close to meeting the outdoor cooking enthusiasts' needs. The range is supported by a full parts and service offer, as well as home delivery and installation service, further complemented by the widest selection of accessories in the market.
- Home heating – in the autumn and winter seasons BBQ Factory warms New Zealand homes with a great range of New Zealand made and internationally sourced wood, pellet and gas fires. Brands represented include Kent, Yunca, Osburn, Nature's Flame, Paloma and Nectre. We also keep our customers warm outside with a wide range of outdoor patio heaters and a new range of gas and wood outdoor fires.
- Spa pools – over half the spa pools sold in New Zealand come from BBQ Factory because we offer a great range of local and international brands at competitive prices, backed up by expert advice and after sales service.
- Outdoor furniture and accessories – products to enhance the enjoyment of outdoor living areas including lighting, tableware, garden décor, water features and much more. Our expanded range of furniture and accessories will continue to grow our sales in these categories.

BBQ Factory has a clear strategic direction to become the New Zealand public's first choice retailer of indoor/outdoor living products. This involves expanding the customer offer to include complementary products that enhance enjoyment of the outside living area, improving the location and presentation of stores, and the introduction of new customer services. The first example of this new concept store opened in Christchurch next to Tower Junction in June 2006 and has already delivered significantly improved results. This concept will be rolled out to a further five stores within the next twelve months. The company is budgeting a modest EBIT for the year ahead, with profit growth in the medium-term as the strategic actions take effect.



## DIVERSIFIED COMPANIES

Turnover	\$42.4 million	(2005 : \$30.4 million)
EBIT	\$2.9 million	(2005 : \$2.5 million)

### Levana Textiles (100% owned)

Levana Textiles is a leading manufacturer and marketer of high quality, high performance, branded circular knit fabric to garment makers in New Zealand, Australia, South Africa and Hong Kong. Levana's customers operate in sectors such as swimwear, children's wear, performance sportswear, outdoor adventure wear, intimate apparel, and men's and women's fashion.

Levana has established itself as a first class supplier to both local and international markets with key points of difference being quality, lead time and delivery performance. Export revenue continues to grow year on year on the back of improved customer service and high quality fabric offerings, notably merino wool. Merino sales continue to increase with excellent acceptance in New Zealand and Australia. Despite this significant operational performance improvement and fabric innovation, sales fell short of budget for the year. This was caused by a small number of larger customers moving their garment making offshore or experiencing internal business issues.

Gross profit for the year was negatively impacted by reduced sales volume, combined with increased fixed overheads, the effect of which was minimised through good expense control. Fluctuations of the New Zealand dollar impacted both raw material purchases and export sales.

Levana starts the new financial year with refreshed branding. The budget for the year ahead is conservative reflecting an uncertain economy and rising costs in energy and raw materials. The selling price of fabrics has been increased in order to recover margin. Productivity and quality performance, via improvements in processes and capital investment, continue to be the key drivers for best practice customer service and delivery.

A strong strategic and export focus has been implemented to achieve sales growth into the Australian market and penetration into the USA and Europe. Sales into South Africa continue to grow with the trend for stripes in swimwear. New Zealand merino wool remains the premium fabric for our export drive outside the Australasian market.

Levana continues to focus on the upper quartile of the textile market with high quality fabrics, most notably merino, in order to avoid direct competition with low priced imports. Levana's future opportunities will be in its ability to maintain and expand its customer base, seek out new markets whilst maintaining product quality, and customer service with shorter lead times.



Levana's new Bisio Continuous Decatiser has given excellent productivity improvements



Maurice Brown, Knitting Supervisor, sets up a striper knitting machine



HDPE bubble being blown during the extrusion process at Elldex's Albany plant

### Elldex Packaging (100% owned)

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

Elldex traded strongly during the year, increasing sales, but its EBIT was slightly below budget due to a change in product mix and due to increased materials costs which could not immediately be passed on to customers.

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 primary produce, processed food and retail sectors.

The company operates a HDPE film extruding and conversion plant at Albany on Auckland's North Shore. The operation is complemented by an in-house plastics recycling plant, enabling the company to reduce raw material costs and meet industry recycling targets.

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

Elldex has built a solid reputation for quality, service and an ability to react quickly to changing market requirements. This has helped it establish long-term supply relationships with leading supermarkets, retail chains and industrial users on both sides of the Tasman.

The company is committed to ambitious growth plans and has successfully aligned itself with a number of Asia's leading packaging manufacturers, enabling it to compete successfully in the Australian and New Zealand markets where it will focus on promoting an expanding range of specialist packaging materials.

### Energy Intellect (25% owned)

Energy Intellect Limited (Ei) is a Wellington-based technology and service company serving the automated meter reading sector of the electric utility industry in New Zealand and Australia.

The company develops advanced poly-phase electric meters, sophisticated modems operating on the GSM/GPRS and CDMA cellular networks, and a regulatory approved software platform for managing meter data.

#### Products and Services

iE2 Meter Data Management Platform – iE2 is the company's leading software product, and the latest version of iE2 operated via the Internet was rolled-out to our first client, NGC, this past fiscal year. Associate company Stream will be migrating their approximately 4,000 meters onto iE2 later this year.

iEM Web Presentation Software – iEM is the company's software that clients purchase to view meter data. It is a popular package with many clients in New Zealand and Australia, and the company is developing the next version for release in 2007.

VM Meter – Ei expects to complete the next-generation meter in January 2007, and work has commenced on the product roadmap, sales collateral, and competitor analysis.

Cellular Modems – Ei also sells a range of wireless modems for machine-to-machine data communications over the GSM/GPRS and CDMA cellular networks, and this product has been Ei's fastest growing product line.

TransView – The company introduced this new product this year to the network companies who use it to monitor in "near-real-time" their electrical equipment such as transformers and distribution lines over the Internet.

### Markets

New Zealand - Ei reads more than 80% of the interval meters in New Zealand through its two primary customers NGC Meter Data Services and Stream (of which Ei owns 30% and Vector Limited owns 70%).

Australia – This past year has seen the number of clients grow from two to ten, resulting in Ei's business in Australia quadrupling. Ei's systems read approximately 15% of the Australian interval meter market.

### Growth

The state of Victoria in Australia remains a primary opportunity for the company, although the state regulators have postponed the roll-out of interval metering which will defer the timing of the company's ability to realise a return in Victoria. Ei has also identified several multi-million-dollar opportunities in the US, notably in Texas, and the management team is engaging with those prospects to hopefully secure new business.

### Bombay Petfoods (49% owned)

Bombay Petfoods brand "Jimbos" continued to perform well in the marketplace in the past year. Turnover increased steadily however freight, fuel and packaging costs caused some erosion of margin on the year previous.

The brand strengthened against opposition with a steady climb in market share through the supermarket sector in regions outside Auckland.

The company has continued to focus on the "Jimbos" brand through various advertising channels and now has a sound platform for expansion through to other markets.

The resumption of supplying the South Island markets ex the Bombay plant will consolidate business interests in the coming year.

### THE OUTLOOK

While trading conditions remain challenging for a number of the Group's businesses, the underlying profitability of the Group will continue to reflect trends in the overall New Zealand economy.

However, we believe that the leading market positions of most of our businesses will insulate them from any downturn in the economy and we have confidence in the underlying profitability of the Group.

The various asset sales during the past financial year, and the recent \$50 million Capital Notes issue have put Hellaby in a strong financial position to grow the Group when suitable opportunities arise.

Our focus will continue to be on increasing the core underlying earnings of the Group and we are hopeful that the anticipated slow down in the New Zealand economy will lead to increased investment opportunities for the Hellaby Group.



David Houldsworth  
Managing Director