

HELLABY HOLDINGS LIMITED - NZX ANNOUNCEMENT

27 August 2007

Hellaby result reflects a challenging year

- Decline in profitability due to difficult trading conditions and one-off transactions, including impairment of BBQ Factory goodwill and brands
- Strategic review of businesses undertaken
- Tightened investment performance criteria for all assets
- FY2008 target for EBITDA adjusted for one-offs of around the \$45 million achieved in recent years

Investment company Hellaby Holdings Limited today reported a decline in profitability for the financial year to 30 June 2007.

Hellaby's trading surplus before interest, tax, depreciation, amortisation and one-off transactions was \$34.0 million, 28% lower than last year's \$47.6 million.

Hellaby Chairman Bill Falconer said the company was understandably disappointed in the result. "As we reported earlier this year, all of the company's divisions – Automotive, Industrial, Retail and Diversified – simultaneously experienced difficult trading conditions during the first half of the year. While most businesses improved performance and met their targets during the second half, all divisions returned lower trading surpluses for the year compared to the previous financial year. "

This result has been further impacted by a number of one-off costs, plus the non-recurrence of one-off gains achieved in the year to 30 June 2006, and an \$18.8 million goodwill and brands impairment booked for retail subsidiary BBQ Factory. Consequently, the company has recorded a tax-paid deficit of \$9.8 million, compared with last year's \$23.1 million surplus.

Included in the result to 30 June 2007 are the following one-off costs:

- \$2.4 million of costs associated with forward exchange contracts required to be expensed in accordance with IAS 39 and stock adjustments;
- \$0.9 million of costs incurred in conducting a strategic review of the retail businesses;
- \$0.4 million of costs associated with the previous Chief Executive's retirement.

This result represents an after tax return of (10%) on average shareholders funds employed (last year 21%), and net asset backing of \$1.61 per share (last year \$2.29 per share).

In recognition of the poor results achieved, the Board of Directors had resolved not to distribute a final dividend for the year. Hellaby's total distribution for the year will be the interim dividend of 10 cents, fully imputed, and paid on 20 April 2007.

Mr Falconer said that the past year's performance had resulted in the group comprehensively reviewing its future direction. "On a positive note, this has confirmed that our core businesses are sound and can be expected to be resilient in the current economic uncertainty. There are some businesses we will divest for the right price, and there are some where value can be added before divestment would be considered. Overall however, the decks are being cleared,

and the company is moving forward with a strong focus on operational performance.”

The company’s second half performance improved markedly in several of the businesses, compared to the same period in the previous year. The Brake & Transmission EBIT was 16% higher in the second half (excluding acquisitions during the year), the AB Equipment/AB Rental EBIT was 10% higher, and the No 1 Shoes EBIT was 20% higher in the second-half year-on-year.

Mr Falconer also advised that the strategic review of Hellaby’s footwear retail division was nearing completion. “Following a detailed evaluation of our options, the Board believes that we have two excellent and well-managed assets, both of which have the potential for further profit growth. Hellaby will retain ownership of these businesses for the time being.”

Recently-appointed Hellaby Chief Executive John Williamson said that a range of factors contributed towards the lower performance of the various divisions. “The Automotive and Industrial Divisions were constrained by slower than planned expansion into the Australian market, a downturn in the agricultural sectors on both sides of the Tasman, equipment supply issues due to worldwide equipment demand, and negative hedging adjustments,” he said.

“Our retail businesses, like most in their sector, experienced extremely poor summer trading conditions which were not sufficiently offset by an improved performance during the second half of the year, while BBQ Factory’s performance remained unsatisfactory throughout. Our new automotive investments in batteries and brake parts did not start to make their contribution to group performance until later in the year.”

Mr Williamson said that while market conditions had improved for most divisions, further performance improvements were also being sought. “The majority of our companies have been performing to expectations for the past three to four months, which is a positive trend. However, we have also recently introduced a number of comprehensive operational improvement initiatives across the Hellaby group to capture more value from our businesses.”

“We know we have to improve performance significantly and to this end, capital discipline and working capital efficiency has become a key focus across all business units.”

Mr Williamson said that the integration of the two recently acquired packaging businesses, Wellington-based PPL Corporation and Christchurch-based Chequer Packaging (in Receivership) into the new Elldex packaging division was progressing satisfactorily. Both businesses were acquired in July 2007 subsequent to year-end. “Hellaby’s packaging sales revenue and profits are on track to more than double for the year to 30 June 2008,” he said.

“Importantly, we believe that this expansion in packaging represents a standard template for future investment by Hellaby. Our strategy over time will be to develop further divisions through the carefully-researched initial acquisition or development of a platform business, and subsequent growth through a combination of market development and ‘bolt-on’ acquisitions.”

While Hellaby continued to focus on the turnaround of the BBQ Factory, Mr Williamson said that recent initiatives, which include new outlets and refurbishments, had not yet gained traction. “Following a review of the business, the Board of Directors has concluded that it will take further time to complete, and that the Group should recognise an \$18.8 million goodwill and brands impairment for the BBQ Factory in the year to 30 June 2007.”

Mr Williamson noted that since the time of its acquisition by Hellaby, BBQ Factory has returned EBIT losses of \$2.0 million in the year to 30 June 2007, similar to the previous year. Mr Williamson said that performance since the time of acquisition indicated that Hellaby had overpaid for the BBQ Factory. "Although measures are in place to improve performance, directors believe an impairment expensing of the full remaining goodwill and brands value is the most appropriate decision at this time," he said.

Looking ahead, Mr Falconer said that the Hellaby Board's overriding objective was to restore investor confidence in Hellaby, by driving company performance and improving total shareholder returns. "We know we have to improve performance significantly – and chase free cash flow hard. Capital discipline and efficient use of working capital has become a key focus across all business units. Assets are likely to be divested if they are not performing, if we are unable to grow them, or if we can better add value for our shareholders by investing elsewhere."

"In summary, the year to 30 June 2008 will be a year of consolidation. Our immediate priorities are achieving Hellaby group EBIT targets, improving our group net working capital efficiency, and successfully turning around the BBQ Factory. We intend to finish the next financial year with a stronger balance sheet, and are targeting revenue and profit growth in all our business units for the year to 30 June 2008."

Current expectations are that in the financial year to 30 June 2008 Hellaby's trading surplus before interest, taxation, depreciation, amortisation and one-off transactions will be around the \$45 million achieved in recent years.

Ends

For further information please contact:

John Williamson
Chief Executive Officer
HELLABY HOLDINGS LIMITED

Phone: 09 – 307 6844
Mobile: 021 – 271 4960

Summary of Hellaby Group financial performance for the year ended 30 June 2007:

	2007 NZ IFRS \$'000	2006 NZ IFRS \$'000	2005 NZ IFRS \$'000
Gross trading surplus	37,017	50,118	44,940
Administration	3,028	2,548	1,912
Trading surplus before depreciation & interest	33,989	47,570	43,028
Depreciation	8,799	10,027	9,064
Amortisation	1,030	570	422
Interest	10,388	9,601	5,806
Net trading surplus	13,772	27,372	27,736
Other			
Surplus on sale of assets	322	8,850	778
Surplus on sale of shares	0	1,382	0
Goodwill impairment	(18,792)	(5,119)	0
Operating (deficit) / surplus	(4,698)	32,485	28,514
Less tax	5,131	9,349	6,296
	(9,829)	23,136	22,218
Plus one-off tax benefits	0	0	978
Operating (deficit) / surplus after tax	(9,829)	23,136	23,196
Earnings per share	(19.7) cents	46.9 cents	47.1 cents

Divisional performance:

	Turnover (\$m)		EBIT (\$m)		
	FY 2007	FY 2006	FY 2007	FY 2006	
Automotive	118.5	100.9	12.8		14.0
Industrial	134.3	129.9	6.2		9.6
Retail - Ongoing operations	191.7	176.8	6.7	9.8	13.7
- Discontinued operations		<u>42.7</u>		<u>3.9</u>	
Diversified	41.5	42.4	2.6		2.9
	486.0	492.7	28.3		40.2

