HELLABY HOLDINGS LIMITED – INTERIM REPORT

DIRECTORS' REPORT

We present the financial results for Hellaby Holdings Limited for the six months to 31 December 2008. During this period there has been an unprecedented rate of decline in global and local market conditions, which has unsurprisingly affected all of Hellaby's operating divisions – most particularly the AB Equipment business.

Our priority has therefore been to meet the challenges of a worsening economic environment. While this half-year profit result unfortunately reflects the very tough market conditions we have experienced, we are pleased with our balance sheet improvement, most notably reflected in a 32.5% reduction in core bank debt compared to a year ago.

Group financial performance [1]

Total revenues for the Hellaby group were $242.3 million, down 4.0% against last year's restated $252.4 million. The Equipment division experienced significantly reduced sales revenues compared to the previous period, while other divisions achieved revenues comparable to the previous year.

Margins were severely affected in some subsidiaries, not only by pricing pressure but also by the effect of downward currency movement on the cost of goods sold. Further pressure came from higher overheads, due mainly to increased property rental and payroll costs. The resulting group trading surplus before interest, tax, depreciation, amortisation, discontinued operations and before one-off transactions (EBITDA) was $10.6 million, compared to $20.6 million for the same period last year.

Correspondingly, Hellaby group trading operating earnings before interest, tax, discontinued operations and before one-off transactions (EBIT) reduced to $6.5 million, compared to $15.9 million for the same period last year.

Hellaby achieved a tax-paid profit (NPAT) of $0.4 million, compared to an NPAT of $5.0 million for the same period last year.

On a positive note, core bank debt[2] reduced to $80 million at 31 December 2008, compared to $85.5 million at 30 June 2008 and $118.5 million at December 2007. This was primarily driven by working capital improvements at some subsidiaries, most notably BNT and Eurolift.

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[1] *The results for the six months ending 31 December 2008 isolate out those of BBQ Factory, the assets and business of which were sold on 30 June 2008. As such, BBQ Factory constitutes a 'discontinued operation', which requires its results to be reported separately under IFRS requirements. All comparative operational results have also been adjusted accordingly.*

[2] *Current core bank debt facilities held with Westpac are scheduled to be rolled over effective October 2009. This core debt has been classified within current liabilities at 31 December 2008. In comparative periods this debt has been recorded within term liabilities.*

Hellaby's subsidiaries are now significantly more focused on working capital management, and most achieved some improvement despite the dual impact on inventory values of tougher market conditions and weakened currency.

Group inventories at 31 December 2008 were $131.2 million, which is 7.9% lower than the same period last year, despite the exchange rate impact from a weakening New Zealand dollar on inventory carrying value. Group receivables and prepayments at 31 December 2008 were $42.1 million, 20.9% lower than at December 2007.

Net asset backing at 31 December 2008 was $1.84 per share, compared with $1.80 per share at 30 June 2008 and $1.77 per share at 31 December 2007.

Trading performance

Automotive

The Automotive division has maintained relatively steady sales and market share, although at the expense of margins, which resulted in reduced profits for the half year.

BNT delivered solid levels of free cashflow during the six month period, and has continued to increase its market share in selected areas of the heavy commercial market. TRS Tyre and Wheel experienced steady demand from the New Zealand agricultural sector. As previously signalled, the TRS Australian operation which was unable to achieve the required return on investment, was discontinued at minimal cost during the period.

Equipment

AB Equipment was most impacted by the economic downturn, making an operating loss for the period. The decline in market demand was more severe than expected, particularly in construction equipment – an issue which is currently affecting the heavy equipment industry internationally. Consequently, AB Equipment's working capital position deteriorated considerably, as did its profitability.

Several initiatives are now being driven by new management to reduce inventories and overheads, improve debtor management and streamline internal processes. AB Equipment will effectively be 'modernised' over the second half year by way of restructure and culture change. We expect the planned working capital actions to generate stronger cashflows and substantially contribute to Hellaby's targeted core bank debt reduction at June 2009.

By contrast, the transformed Eurolift materials handling business performed relatively strongly, with solid sales and significantly improved inventories and debtor levels. It consequently delivered sound levels of free cashflow for the half year period. Eurolift has been repositioned as a lifting and hydraulics business, having exited the construction equipment market.

Packaging

Elldex Packaging, which includes Chequer and PPL (both acquired in mid 2007), experienced substantial resin pricing and currency movements during the half year, which combined to negatively impact margins and profitability.

During the period Elldex made good progress in addressing reduced demand from the industrial and retail sectors, by securing new business opportunities in food packaging. It also closed its small Auckland manufacturing facility, integrating its operations into the larger Wellington and Christchurch plants – an initiative which is expected to deliver improved efficiencies from 2009 onwards.

Footwear

A depressed retail environment impacted Hellaby's Footwear division, and while same store sales increased by approximately 2%, pressure on margins and increased staff and store lease costs resulted in a reduced profit at half year.

Hannahs and Hush Puppies stores improved their margins and profitability on flat sales, while the Australian Pulp stores improved both revenue and profitability during the half year period.

No 1 Shoes' sales performance improved during the period, with higher same store sales, albeit at significantly reduced margins. Four temporary clearance stores have been opened in Auckland, Wellington and Christchurch to dispose of surplus and end-of-line stocks, with a view to establishing a permanent clearance store network when the initial trial is successfully fine-tuned.

Acquisitions and disposals

There were no acquisitions or disposals during the half year period to December 2008.

In accordance with the contractual terms of the June 2008 BBQ Factory divestment, Hellaby has received the first two deferred payments of principal and interest on the scheduled quarterly dates during the six months to December 2008.

Although Hellaby has now begun to identify potential acquisition opportunities, any significant acquisitions are unlikely until the group's balance sheet has demonstrably improved. We believe the current economic downturn is nonetheless likely to present some interesting acquisition opportunities for Hellaby going forward.

Dividend

We have not declared an interim dividend for the half year. Whilst the Board expects the group to achieve a profit in the second half, the priority at this stage is to reduce debt. Hellaby's dividend policy of distributing approximately 50% of net tax-paid operating profits will be applied to the full year NPAT at year end.

Board succession

As previously signalled, the Board continued its ongoing succession process, with two new directors, James Sclater and Steve Smith, appointed in September 2008. James Sclater is a former chairman of Grant Thornton Auckland with an accounting, SME and business advisory background. Steve Smith is a professional director, before which he was chief executive of Pacific Retail Group and a partner, Corporate Finance and Investment Banking, with PricewaterhouseCoopers.

Hugh Green retired as a director in October 2008. Hugh is chairman and founder of the Hugh Green Group, which has been the major Hellaby shareholder since 1993 prior to its listing, with a 30.5% shareholding. He remains an alternate director of the company.

Outlook

Historic trends indicate that Hellaby's group sales and profit should improve during the second half year, being the period when Hellaby traditionally generates a higher proportion of its profit.

However, Hellaby is facing what is probably the harshest and most wide-reaching New Zealand economic downturn since the company listed in 1994. As with many other New Zealand companies, we did not foresee the speed and severity of economic downturn, and are unable to predict when conditions might sustainably improve.

Based on the deteriorating economic environment, likely restructuring costs within AB Equipment, our intention to further reduce inventories and the current trading performance of subsidiaries, we believe that the Hellaby group EBITDA is likely to be around $25 million for the year to 30 June 2009. This is below the guidance previously provided by the company, and compares to an EBITDA of $40.6 million in the previous financial year (including results from the discontinued operations of BBQ Factory).

Correspondingly, the Hellaby group tax-paid profit (NPAT) is presently estimated to be around $5 million for the year to 30 June 2009, compared to $4.7 million in the previous year (including results from the discontinued operations of BBQ Factory).

The two major opportunities for Hellaby during the next six months are (1) achieving further balance sheet improvement across all subsidiaries, and (2) achieving a turnaround at AB Equipment to restore profitability and generate cashflow. Through these initiatives we are able to reaffirm our target for core bank debt to be at or below $70 million by 30 June 2009, thereby generating stronger free cashflow during the second half year.

As we continue to tighten financial disciplines and streamline our businesses, we believe that Hellaby will emerge in significantly better shape when economic conditions do eventually improve.

Bill Falconer
Chairman

John Williamson
Chief Executive Officer

26 February 2009