



Tenon Limited Half Year Report 2005-2006



- 1** Half Year Report
- 4** Statement of Accounting Policies
- 9** Condensed Financial Statements
- 14** Notes to the Condensed Financial Statements
- 29** Investor Information



Half year report

All references to dollars (\$) are to United States dollars.

Operating profit before interest, tax, depreciation and amortisations ("EBITDA") for the six months ended December 2005 was \$5.9 million (prior to a one-off impairment charge of \$0.7 million for the complete exit from the Company's European furniture development business, but inclusive of a \$0.6 million contribution from Southwest Mouldings which was acquired in November 2005), compared with \$7.8 million recorded in the preceding six months to June 2005. This result is in line with projections made to the market by the Company in November last year.

Although in line with market forecasts, the Company's performance over the period was negatively affected by a continuation of the very high New Zealand dollar exchange rate against the United States dollar (averaging almost 70 cents over the six months under review) which impacted the Taupo manufacturing operations, and by the difficult trading conditions encountered by our 50% owned joint venture American Wood Mouldings ("AWM"). While we believe we have seen the worst from both of these factors – in particular with the New Zealand exchange rate now trading around 66 cents against the United States dollar – we need to ensure that we can manage our business such that it can withstand sustained negative operating conditions as have occurred over the past six months. Accordingly, our focus has been to:

- Narrow Tenon's activities to focus solely on the higher-margin North American opportunities
- Strengthen our market position by:
 - Increasing the product offerings we can provide to our existing national home centre customers in North America
 - Expanding our distribution activities beyond existing customers and into the high volume independent lumber yard and pro-dealer segments
 - Ensuring we have a low-cost manufacturing and sourcing network, able to provide high quality products at internationally competitive prices.

Highlights during the six-month period that reflected this focus included:

- The \$16.6 million acquisition of 51% of Southwest Mouldings – a Texas-based mouldings, stair parts and millwork manufacturer and pro-dealer distribution business;
- Further investment in our USA distribution network through the purchase of the remaining one-third equity in Empire for \$29.4 million;
- Commercialisation of Armourwood, an innovative primed and treated outdoor finishing product for the US housing market that is gaining market acceptance and is already sold in over 100 stores;
- A 16% increase in operating revenue to \$167.4 million;
- The introduction of cost and service initiatives at AWM to turn around its disappointing six months results. These have included the implementation of \$2.5 million of cost reductions and the initial re-engineering of its Mexico activities. AWM Mexico incurred losses of \$0.6 million in the first six months but is now operating at break-even;
- Agreement with Contact Energy to replace natural gas with geothermal energy at our Taupo site, with expected annual savings of \$1.3 million (from 1 May this year);
- The re-negotiation of freight rates and routes to achieve a reduction in freight costs;
- The move of our executive office to the USA, and the consolidation of our corporate cost base appropriate to the location, size and complexity of the ongoing business; and
- The exit from our European furniture market development with Zenia House in Denmark. An impairment charge of \$0.7 million was made in the period to provide for all exit costs.

OPERATING PERFORMANCE

Operating revenue for the period totalled \$167.4 million, up \$23.3 million (16%) on the preceding six months to June 2005. The increase in revenue was due to higher sales volumes at Empire (\$7.4 million), additional sales from New Zealand operations (\$7.6 million) and the first time inclusion of Southwest Mouldings (\$8.3 million).

Due to lower earnings and increased investment in working capital, net cash applied to operating activities for the six months to December 2005 was \$6.1 million, compared with an inflow of \$8.7 million in the preceding period to June 2005.

Cash applied to working capital of \$8.2 million supported revenue growth at Empire while higher inventory levels were required for the initial rollout of the new Armourwood product range in the USA.

The Company invested \$49.1 million of capital expenditure during the period, primarily for the purchase of the remaining 33% equity in Empire (\$29.4 million), the purchase of 51% of the equity and refinancing of Southwest Mouldings (\$16.6 million) and various capital projects (\$3.1 million).

The Company had net interest bearing debt of \$33.4 million at 31 December 2005.

DEVELOPMENT OF US STRATEGY

The period showed strong strategic development for the Company. In September, the Company announced the move to 100% ownership of Empire. The purchase secures the full economic benefits of ownership while retaining the existing focused and highly-experienced management team at Empire.

In November, Empire purchased a 51% interest in Southwest, a Dallas-based moulding and millwork distributor for the large and growing Texas pro-dealer market. The purchase enhances our North American distribution business by expanding our product offering, diversifying our customer base and leveraging our procurement. We are continuing to evaluate further opportunities of this nature.

Commercialisation of Armourwood, our new outdoor product, is a significant step in taking Tenon's solid wood products into outdoor applications. This innovative product moves commodity fibre into a branded product in a market significantly larger than the mouldings segment. Further capital investment at our Taupo site has been approved, which will enhance our Armourwood capability. Details of the new product can be found at www.armourwood.com.

AWM is reviewing the cost base underlying the service offering to its customers, and has now put in place cost-reduction initiatives in its US-based operations amounting to \$2.5 million per annum to AWM.

The agreement with Contact Energy to provide a 27-megawatt geothermal plant at Taupo to replace the existing natural gas fired boilers fits well with our stated strategy of having a low cost position in our core businesses. The project is on time and on budget and will be commissioned in the fourth quarter of this financial year. It will generate expected annual cost savings of \$1.3 million per annum.

SHARE BUYBACK

On 7 March we announced that the Board had decided to undertake an on-market share buyback of up to 5% of Tenon's issued shares, in accordance with the Companies Act and the NZX Listing Rules. The reason for this is that despite the sound strategic moves that have been made to establish a strong platform for Tenon in the future, the

share price has reflected the short-term negatives the Company has faced – particularly the ongoing strength of the New Zealand dollar and the difficult trading conditions at AWM.

While it is the Company's view that these issues are of short-term impact only, it is clear that they have, together with a lack of liquidity in the stock, placed price pressure on Tenon's shares in the market. The Board believes the current share price to be well below Tenon's true value, and that the use of the Company's funding capacity to acquire Tenon shares would be significantly value-creating for shareholders.

Due to its strong balance sheet and financing capability, the Company is comfortable that it will be able to complete the share buyback and undertake further business acquisitions which are consistent with its growth agenda.

In accordance with the requirements of the Companies Act 1993, the buyback has been approved by the Board. In approving the buyback, the Board has resolved that:

- **Specified number of shares:** The Company will acquire, by means of offers on the NZX, up to 3,484,881 shares.
- **Best interests:** The buyback is in the best interests of Tenon and its shareholders.
- **Fair and reasonable:** The terms of the buyback and the consideration offered for the shares are fair and reasonable to Tenon.
- **Disclosure:** It was not aware of any information that was not available to shareholders:
 - that was material to an assessment of the value of the shares; and
 - as a result of which the terms of and consideration for the buyback would be unfair to shareholders from whom any shares would be acquired.
- **Solvency test:** It was satisfied on reasonable grounds that Tenon would satisfy the solvency test immediately after the buyback.

Shares purchased by Tenon under the buyback will be cancelled automatically on acquisition, and the number of issued shares will reduce accordingly. Shares acquired will not be held as treasury stock.

The Board has considered the nature of the safeguards that should be adopted in order to ensure that the buyback does not distort the market for our shares. The Board also sought to adopt procedures that would assist to provide an equal opportunity for both large and small shareholders to participate in the buyback, thereby ensuring that all shareholders are treated fairly and equitably. Briefly, the procedural safeguards that will be employed during the buyback are as follows:

- Shares cannot be purchased outside the bid/offer spread quoted on NZX's FASTER system;

- Tenon can only buy back shares through FASTER during normal trading hours (i.e. there will be no off-market transactions);
- Shares cannot be purchased at a price which is higher than 5% above the average closing pricing for shares on the NZX over the previous five trading days; and
- Tenon will not begin its buyback programme until the required three days' prior notice of its intention to do so has been given to the NZX.

Tenon is not obliged to make offers, and reserves the right to suspend or cancel the buyback at any time.

Under the Income Tax Act 2004, the proceeds of purchases by a company of its own shares on a recognised stock exchange (except under arrangement with the shareholder) are not dividends for New Zealand taxation purposes. In the absence of dividend classification, Tenon will not be required to deduct withholding taxes. Receipts of the proceeds will not be taxable for a shareholder who held the shares on capital account.

Tenon does not expect any adverse tax consequences for itself as a result of the buyback.

The New Zealand taxation position of dealers or traders in shares that are assessable for gains realised on the disposition of shares is not altered where a company is the buyer of its own shares. Shareholders in doubt as to the taxation effects of the sale of shares by them, under the buyback, should consult an appropriately qualified taxation advisor.

Subsidiaries of Rubicon Limited own 54.8% of Tenon's shares. Depending on the volume of shares bought back by Tenon at any particular time and on whether Rubicon decided to participate in the buyback, Rubicon may be required under The Takeovers Code (Class Exemption) Notice (No.2) 2001 to decrease its percentage shareholding in Tenon within six months of any increase in its holding caused by the buyback either to (or below):

- Its control percentage immediately prior to the buyback; or
- The maximum control percentage permitted at the time of the disposal after application of the "creep" provisions that allows Rubicon to increase its shareholding in Tenon by up to 5% in any 12-month period.



Luke Moriarty
Chairman of Directors
7 March 2006

Rubicon announced to the market on 7 March 2006 that it did not intend to participate in the buyback.

If Tenon does not begin buying back shares before 22 April 2006 then it is unlikely that Rubicon will be required to decrease its percentage shareholding in Tenon.

FUNCTIONAL CURRENCY

In July, the Company announced the adoption of the United States dollar as our presentation and functional currency. This decision is an important one as we can now provide a more concise and transparent analysis of the drivers of value, allowing us to report to our shareholders in the same currency we use to manage the Company.

EARLY ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company is an early adopter of the New Zealand equivalents of the International Financial Reporting Standards ("NZ IFRS"). The most significant change for the Company is the requirement to recognise, as a deferred settlement liability, the discounted cost of options to put to Tenon the remaining equity in non-wholly owned subsidiaries by minority shareholders (for example, the 49% of Southwest that Tenon does not own). The detailed impacts of adoption, including a reconciliation of the restatement of comparative periods, are set out in the attached Statement of Accounting Policies.

EARNINGS GUIDANCE

In November 2005 the Company issued earnings guidance to the market, stating that (excluding unusual items) EBITDA for the year ended 30 June 2005 was forecast to be in a range of \$17-20 million. This announcement was prior to the Company's acquisition of Southwest. Adjusting for this event and also for the exchange rate environment that has prevailed over the past four months since that announcement, the Company expects full year EBITDA (excluding the Zenia House impairment charge) of around \$21 million. The substantially better EBITDA expectation in the second half of the financial year as compared with the first half (i.e. \$15 million against \$5.9 million) is driven by lower reset costs for home centre customers, a full period contribution from Southwest, the rollout of the new Armourwood outdoor product range, lower operating costs at Taupo and a more favourable foreign exchange environment.



Mark Eglinton
Chief Executive Officer

Statement of Accounting Policies

BASIS OF PRESENTATION

The Financial Statements presented are those of Tenon Limited (the Parent Company), and Tenon Limited and Subsidiaries (the Group).

STATEMENT OF COMPLIANCE

The interim condensed financial statements have been prepared in accordance with New Zealand International Accounting Standard 34, Interim Financial Statements. These are the Group's first half yearly financial statements prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS). NZ IFRS 1, First-time Adoption of New Zealand equivalent to International Financial Reporting Standards, has been applied. The interim condensed financial statements do not include all of the information required to be disclosed for full annual financial statements. The Group has designated itself as a profit-orientated entity for the purposes of compliance with NZ IFRS.

The accounting policies are not consistent with those used in the December 2004 condensed financial statements, as the December 2004 financial statements were prepared in accordance with New Zealand Financial Reporting Standards (NZ FRS). An explanation of how the transition to NZ IFRS has affected the reported balance sheet and income statement of the Group is provided in note 12. This note includes reconciliations of equity and profit or loss for comparative periods reported under NZ FRS to those reported for those periods under NZ IFRS.

The significant accounting policies as amended under NZ IFRS are set out below and have been applied consistently to all periods presented in these half yearly condensed financial statements and in preparing an opening NZ IFRS balance sheet at 1 July 2004 for the purposes of the transition to NZ IFRS. Accordingly, there is no change in accounting policy or related disclosures.

BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

The reporting currency used in the preparation of these condensed financial statements is United States dollars.

The accounting principles recognised as appropriate for the measurement and reporting of profit and loss and financial position on an historical cost basis have been applied, with the exception of the following assets stated at their fair value: derivative financial instruments, financial instruments classified as available-for-sale and biological assets.

The preparation of interim financial statements in conformity with NZ International Accounting Standard 34, Interim Financial Reporting, requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Group financial statements consolidate the financial statements of subsidiaries, using the purchase method, and include the results of associates using the equity method.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent Company. Control exists when the Parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value for the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions and balances between subsidiaries or between the Parent Company and subsidiaries are eliminated on consolidation.

Associates

Associates are entities in which the Parent Company, either directly or indirectly, has a significant but not controlling interest. The condensed financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Associates are initially recognised at cost.

Statement of Accounting Policies continued

Joint ventures

Joint ventures are entities in which the Parent Company has joint control over the economic activity of the entity via a contractual arrangement whereby two or more parties agree to the unanimous sharing of control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The condensed financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis.

Goodwill

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 July 2004, goodwill represents the difference between the cost of the acquisition and the Group's share of the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its carrying value recorded under NZ FRS. In accordance with NZ IFRS, the classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the Group's opening NZ IFRS balance sheet at 1 July 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Presentation and Functional Currency

Presentation currency

These financial statements are presented in United States dollars, which is the functional currency of the Parent and principal operating subsidiaries (see below). In prior years the financial statements have been presented in New Zealand dollars. The change of presentation to United States dollars has been made because the predominant functional currency of the Group entities is United States dollars. For the convenience of readers the primary statements have also been translated from United States dollars to New Zealand dollars for the period ending 31 December 2005.

Functional Currency

Foreign operations

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the Parent became United States dollars on 1 July 2005 following the sale

of the Structural business segment. Prior to this date the functional currency of the Parent was New Zealand dollars. The condensed financial statements are presented in United States dollars.

The assets and liabilities of all of the Group companies (none of which has a currency of a hyper-inflationary economy) that have a functional currency that differs from the presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to the presentation currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to the presentation currency at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Non-monetary exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve.

Transactions

Transactions in currencies other than the functional currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a currency other than the functional currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in a currency other than the functional currency that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

VALUATION OF ASSETS

Land, Buildings, Plant and Equipment

Land, buildings, plant and equipment are valued at historical cost less accumulated depreciation.

Land is not depreciated. Depreciation on other fixed assets is calculated on the straight line method. Expected useful lives, which are regularly reviewed, are (on a weighted average basis):

Buildings	30 years
Plant and Equipment	10 to 13 years
Office Equipment	3 to 5 years

Forest Assets

Forest Crop is revalued annually to Directors' estimate of fair value less point of sale costs. The net gain/loss arising from changes in forest crop valuation is credited/debited to the income statement.

Statement of Accounting Policies continued

Available-for-sale Financial Assets

Investments held by the Group which are classified as being available-for-sale are stated at their fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these investments are disposed of, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. The fair values of unlisted investments are calculated using a discounted cash flow method.

Investments classified as available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

Inventory

Trading inventory, raw materials and work in progress are valued at the lower of cost or net realisable value, determined principally on the first-in-first-out basis. Cost includes direct manufacturing costs and manufacturing overheads at normal operating levels. Cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

Debtors

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

Cash

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-current Assets Held for Sale and Discontinued Operations

Non-current assets held for sale are assets whose carrying value will be recovered principally through sale rather than through continuing use. Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised while they are classified as held for sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For goodwill, the recoverable amount is estimated at each balance sheet date.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, and then to reduce the carrying amount of other assets in the cash-generating unit on a pro rata basis.

The recoverable amount of assets, other than receivables, is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

VALUATION OF LIABILITIES

Trade and Other Payables

Trade and other payables are stated at cost.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Statement of Accounting Policies continued

Provisions are measured at the Group's best estimate of expenditure required to settle the present obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Deferred Settlement Liabilities

Deferred settlement liabilities are recognised in the balance sheet at fair value and are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Changes in the fair value, other than the imputed interest, of a deferred settlement liability in a business combination are charged to goodwill.

Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Deferred Income Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the condensed financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Derivative Financial Instruments

The Group uses derivative financial instruments for the purpose of managing its exposure to adverse fluctuations in interest and foreign currency exchange rates. While

these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged.

The Group policy specifically prohibits the holding or issuing of derivative financial instruments for trading or speculative purposes. However, derivatives that do not qualify for hedge accounting are classified as financial assets at fair value through the income statement. These derivative financial instruments are initially recognised at fair value at the date the contract is entered into. The subsequent gain or loss arising from changes in the fair value of derivative financial instruments is recognised immediately in the income statement.

However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

(a) Cash flow hedge

For cash flow hedge transactions in which the Group is hedging the variability of future cash flows related to a variable-rate asset, liability or a forecasted transaction, the effective portion of the changes in the fair value of the derivative instrument are reported in the statement of changes in equity. The gains and losses on the derivative instrument that are reported in the statement of changes in equity are reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item.

The ineffective portion of all hedges is recognised in current period earnings.

The net interest received or paid on the contracts is reflected as interest income or expense of the related hedged position. Gains and losses resulting from the termination of contracts are recognised over the original period hedged as long as the underlying cash flows are still probable of occurring. If the hedged positions are sold, or the underlying cash flows are no longer probable of occurring, any unrealised gains or losses are recognised in the current period as net gains or losses on sales of interest-earning assets.

(b) Fair value hedges

Changes in the fair value of derivatives which are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to both the effective and ineffective portions of interest rate swaps hedging fixed rate borrowings are recognised in the income statement within finance costs.

Statement of Accounting Policies continued

INCOME DETERMINATION

Revenue Recognition

Revenue comprises the fair value of the consideration received for the sale of goods and services, net of rebates and discounts and after eliminating sales within the Group.

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

Investment income

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Group's right to receive payment is established.

Financing Costs

Financing costs comprise interest payable on borrowings calculated using the effective interest rate method and amortisation of the fair value discount of deferred settlement liabilities.

Leasing Commitments

The Group leases certain plant, equipment, land and buildings. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the income statement in the periods of expected benefit. Purchased head leases are valued at cost and amortised over the unexpired period of the lease on a straight line basis.

Employee benefits

(a) Pension plan obligations

The Group has both defined benefit and defined contribution pension schemes. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits related to employee service in the current or prior periods. In a defined benefit scheme an amount of pension benefit that an employee will receive on retirement is pre-determined and the Group is obliged to meet any shortfall in the fund.

The Group recognises a liability in the balance sheet in respect of defined benefit schemes for the present value of the obligation less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The actuarial cost of providing pension plan benefits in respect of services provided by defined benefit pension plan members to the Group is expensed as it accrues over the service life of the employees, taking account of the income earned by income generating assets owned by the plans. Any over or under accrual of expenses or income from previous periods is amortised within the income statement over a maximum period of the remaining average service life of plan members employed by the Group.

For defined contribution plans, contributions are recognised in the income statement when they are due.

(b) Other employee benefits

Long service leave vests to the employee after varying periods of service. The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. All actuarial gains and losses are recognised in the income statement.

(c) Share based payments

The Group operates a cash settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as a liability. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement with any changes in fair value recognised in the income statement for the period.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary reporting format is business segments.

Goods and Services Tax

The income statement and statement of cash flows have been prepared exclusive of Goods and Services Tax.

Income Statement

for period ended 31 December 2005

	Note	Tenon Group			
		Six Months Dec 2005 NZ\$m	Six Months Dec 2005 US\$m	Year Ended June 2005 US\$m	Six Months Dec 2004 US\$m
Revenue		240.9	167.4	275.9	131.8
Cost of Sales		-185.1	-128.7	-210.1	-98.6
Gross Profit		55.8	38.7	65.8	33.2
Dividend Income		2.4	1.7	5.4	3.0
Share of (Loss)/Profit from Joint Ventures		-0.7	-0.5	4.5	3.0
Distribution Expense		-44.5	-30.9	-47.9	-22.0
Administration Expense		-7.9	-5.5	-10.4	-5.3
Impairment Charge – Zenia House Exit Costs	5	-1.0	-0.7	–	–
Operating Profit before Financing Costs		4.1	2.8	17.4	11.9
Financial Income		0.4	0.3	5.4	4.0
Finance Costs	6	-1.4	-1.0	-3.5	-1.6
Net Financing (Expense)/Revenue		-1.0	-0.7	1.9	2.4
Profit before Taxation		3.1	2.1	19.3	14.3
Income Tax Benefit/(Expense)		0.4	0.3	-6.2	-4.4
Net Profit from Continuing Operations		3.5	2.4	13.1	9.9
Net Profit from Discontinued Operations		–	–	27.7	2.6
Net Profit after Taxation		3.5	2.4	40.8	12.5
Per Share Information:					
Basic and Diluted Net Earnings per Share (cents) – Continuing Operations			3.4	18.8	3.6
Basic and Diluted Net Earnings per Share (cents) – Discontinued Operations			–	39.7	0.9
Total Basic and Diluted Net Earnings per Share			3.4	58.5	4.5
Basic and Diluted Weighted Average Number of Shares Outstanding (millions of shares)			69.7	69.7	278.9

The accompanying notes form part of and are to be read in conjunction with these condensed financial statements.

Statement of Changes in Equity

for period ended 31 December 2005

	Note	Tenon Group			Six Months Dec 2004 US\$m
		Six Months Dec 2005 NZ\$m	Six Months Dec 2005 US\$m	Year Ended June 2005 US\$m	
Net Earnings for the period, comprising:					
Net Profit from Continuing Operations		3.5	2.4	13.1	9.9
Net Profit from Discontinued Operations		–	–	27.7	2.6
		3.5	2.4	40.8	12.5
Movement in Presentation Currency		4.2	–	38.0	42.0
Movement in Currency Translation Reserve		-0.6	-0.4	-23.1	-4.8
Total Recognised Revenues and Expenses for the period		7.1	2.0	55.7	49.7
Acquisition of Minority Interests Tarawera Forests Limited		–	–	-13.7	-13.7
Capital Return – Parent Shareholders' Interest	8	–	–	-229.3	–
Movements in Equity for the period		7.1	2.0	-187.3	36.0
Total Group Equity at the beginning of the period, comprising:					
Parent Shareholders' Interest		174.3	121.8	295.4	295.4
Minority Interest		–	–	13.7	13.7
		174.3	121.8	309.1	309.1
Total Group Equity at the end of the period, comprising:					
Parent Shareholders' Interest		181.4	123.8	121.8	345.1
Minority Interest		–	–	–	–
		181.4	123.8	121.8	345.1

The accompanying notes form part of and are to be read in conjunction with these condensed financial statements.

Balance Sheet

as at 31 December 2005

	Note	Dec 2005 NZ\$m	Tenon Group		Dec 2004 US\$m
			Dec 2005 US\$m	June 2005 US\$m	
Assets					
Current Assets:					
Cash and Liquid Deposits		2.9	2.0	35.5	153.5
Inventory		93.4	63.7	41.9	41.7
Debtors		41.8	28.5	35.3	28.1
Current Assets – Discontinued Operations	11	1.9	1.3	5.0	54.3
Total Current Assets		140.0	95.5	117.7	277.6
Term Assets:					
Fixed Assets		51.4	35.1	28.0	26.9
Investments		29.3	20.0	20.4	18.8
Goodwill		75.2	51.3	31.8	26.6
Deferred Taxation Asset		10.7	7.3	5.3	15.8
Term Assets – Discontinued Operations	11	–	–	–	55.8
Total Group Assets		306.6	209.2	203.2	421.5
Liabilities and Group Equity					
Liabilities					
Current Liabilities:					
Creditors		37.2	25.4	30.9	21.2
Provision for Current Taxation		1.8	1.2	2.8	0.9
Current Liabilities – Discontinued Operations	11	4.4	3.0	8.4	19.9
Total Current Liabilities		43.4	29.6	42.1	42.0
Term Liabilities:					
Term Debt		51.9	35.4	8.2	9.9
Provisions		0.9	0.6	0.8	0.8
Deferred Settlement	10	29.0	19.8	30.3	23.7
Total Group Liabilities		125.2	85.4	81.4	76.4
Group Equity					
Capital	8	791.9	540.3	540.3	785.9
Reserves	9	-610.5	-416.5	-418.5	-440.8
Total Group Equity		181.4	123.8	121.8	345.1
Total Group Liabilities and Equity		306.6	209.2	203.2	421.5

The accompanying notes form part of and are to be read in conjunction with these condensed financial statements.

Statement of Cash Flows

for period ended 31 December 2005

	Note	Tenon Group			
		Six Months Dec 2005 NZ\$m	Six Months Dec 2005 US\$m	Year Ended June 2005 US\$m	Six Months Dec 2004 US\$m
Cash was Provided:					
From Continuing Operating Activities					
Receipts from Customers		254.2	176.7	271.8	133.3
Dividends Received		2.4	1.7	5.4	3.0
Total Provided		256.6	178.4	277.2	136.3
Payments to Suppliers, Employees and Other		259.7	180.5	263.7	133.1
Income Tax Paid		5.8	4.0	5.5	3.9
Total Applied		265.5	184.5	269.2	137.0
Net Cash (to)/from Continuing Operating Activities		-8.9	-6.1	8.0	-0.7
From Investing Activities					
Sale of Fixed Assets		0.3	0.2	0.1	0.1
Repayment of loan by Associate		-	-	6.1	6.1
Total Provided		0.3	0.2	6.2	6.2
Purchase of Fixed Assets		4.2	2.9	3.2	0.5
Purchase of Investments		0.3	0.2	0.6	0.2
Purchase of Subsidiary		23.9	16.6	3.4	-
Purchase of Minority Interest		42.3	29.4	-	-
Total Applied		70.7	49.1	7.2	0.7
Net Cash (to)/from Investing Activities		-70.4	-48.9	-1.0	5.5
From Financing Activities					
Debt Drawdowns		31.7	22.0	90.7	11.7
Interest Received		0.6	0.4	5.4	3.9
Total Provided		32.3	22.4	96.1	15.6
Debt Settlements		-	-	104.7	23.6
Capital Return Paid to Shareholders		-	-	229.3	-
Interest Paid		0.1	0.1	1.8	0.7
Total Applied		0.1	0.1	335.8	24.3
Net Cash from/(to) Financing Activities		32.2	22.3	-239.7	-8.7
Net Cash (to)/from Discontinued Operations	11	-1.4	-1.0	163.8	51.6
Net Movement in Cash Held		-48.5	-33.7	-68.9	47.7
Add Opening Cash and Liquid Deposits		51.1	35.5	89.2	89.2
Movement in Presentation Currency		-	-	14.0	14.0
Effect of Exchange Rate Changes on Net Cash		0.3	0.2	1.2	2.6
Closing Cash and Liquid Deposits – Continuing Operations		2.9	2.0	35.5	153.5

The accompanying notes form part of and are to be read in conjunction with these condensed financial statements.

Reconciliation of Net Earnings to Net Cash from Operating Activities

for period ended 31 December 2005

	Six Months Dec 2005 US\$m	Tenon Group Year Ended June 2005 US\$m	Six Months Dec 2004 US\$m
Cash was Provided from:			
Net Earnings from Continuing Operations	2.4	13.1	9.9
Less Net Financing Expense/(Revenue)	0.7	-1.9	-2.4
Adjustments for Items not involving Cash:			
Impairment and Foreign Exchange	0.4	0.4	0.4
Depreciation	2.4	4.5	2.2
Taxation	-4.3	0.7	0.5
Equity Earnings	0.5	-4.5	-3.0
Cash Flow from Operations before Net Working Capital Movements	2.1	12.3	7.6
Net Working Capital Movements	-8.2	-4.3	-8.3
Net Cash from Continuing Operating Activities ⁽¹⁾	-6.1	8.0	-0.7

(1) As per Statement of Cash Flows.

The accompanying notes form part of and are to be read in conjunction with these condensed financial statements.

Analysis of Purchase of Subsidiary

	Dec 2005 US\$m	Tenon Group June 2005 US\$m	Dec 2004 US\$m
Cash Outflow on Purchase of Subsidiary	16.6	3.4	-
Fair Value of Deferred Settlement	18.1	1.4	-
	34.7	4.8	-
Inventory	13.0	2.8	-
Debtors	5.5	1.9	-
Fixed Assets	6.8	2.0	-
Goodwill on Acquisition	19.1	0.6	-
Creditors	-4.4	-2.5	-
Term Debt	-5.3	-	-
	34.7	4.8	-

During November 2005, the Group purchased a 51% share of Southwest Mouldings Co. In the period to 31 December 2005 Southwest Mouldings Co. has contributed Revenue of \$8.3 million and Net Profit from Continuing Operations of the Group of \$0.3 million. During April 2005 the Group purchased 100% of Kok's Woodgoods, Inc.

The accompanying notes form part of and are to be read in conjunction with these condensed financial statements.

Notes to the Condensed Financial Statements

1. GENERAL INFORMATION

Tenon Limited (the Company) and its subsidiaries (together the Group) is a processing, marketing and distribution business. The Group focuses on the high value moulding and millwork applications in the United States. The Group has strong supplier relationships for finished mouldings and boards with the independent pro-dealer segment and with the two largest home improvement chains in the United States: The Home Depot and Lowe's. The Group also supplies appearance grade lumber to a number of US moulding and millwork manufacturers. As well as providing a channel to market for Tenon's New Zealand products, our distribution businesses, The Empire Company, Inc. and our 50% owned American Wood Moulding, LLC, also source significant quantities of finished mouldings and millwork products from other suppliers.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 8 Rockridge Avenue, Penrose, Auckland, New Zealand.

Tenon has designated itself as a profit-orientated entity.

The Company is listed on the New Zealand Stock Exchange. The Group is 54.8% owned by Rubicon Limited and its subsidiaries.

These condensed financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 7 March 2006.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results. The estimates and assumptions that have a significant risk adjustment to the carrying amounts of assets and liabilities within the next financial year include:

(a) Fair value of deferred settlement liabilities

The Group has recognised the fair value of deferred settlement in relation to a put option held by minority shareholders of a non-wholly owned subsidiary. The Group has used its judgement to make assumptions about the future cash flows that will be required to settle the put option, after applying discounted cash flow analysis. The Group has used a discount rate of 8% after taxation.

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(c) Provision for environmental restoration

It is the Group's policy to monitor environmental performance on an ongoing basis and to require that all of its operations comply with applicable environmental regulatory requirements. Estimated restoration costs, for which disbursements are determined to be probable, are recognised as a provision in the Group's financial statements. When the final determination of such obligation amounts differs from the recognised provisions, the Group's income statement is impacted.

The Group believes that its activities complied and comply in all material respects with applicable environmental laws and regulations.

Notes to the Condensed Financial Statements

continued

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and commodity price risk), credit risk, liquidity risk, cash flow risk and fair value interest rate risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar and New Zealand dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Entities in the Group use forward contracts to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's policy is to manage currency exchange rate exposure to ensure that changes in foreign currency rates do not materially impair the Group's financial position, profitability, cash flow or key bank covenants. Non-monetary assets are recorded in their functional currency, as determined by the dominant currency of cash flows, sales prices, sales market, expenses and debt structure. The currency denomination and quantum of debt outstanding are managed so that economic risk exposure to currency movements on the aggregate of balance sheet and revenue items is offset within policy defined limits. Where the proportion of the underlying debt in any currency does not equate to the required proportion of total debt, derivative financial instruments are entered into to manage the exposure within defined limits.

(ii) Price risk

The Group is exposed to commodity price risk.

(b) Credit risk

To the extent the Group has a receivable from another party there is a credit risk in the event of non-performance by that counter-party. Contracts have been entered into with various counter-parties in accordance with limits set forth by the Group as to credit rating and dollar limits. The Group does not require collateral or other security to support financial instruments. While the Group may be subject to credit losses up to the principal or contract receivable amounts in the event of non-performance by its counter-parties, it does not expect such losses to occur except for those included in the Provision for Doubtful Debts.

The Group has a significant concentration of credit risk as sales are principally to a few customers. These major customers account for 66% of trade receivables at balance date.

There are no other concentrations of credit risk.

(c) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to manage interest rates within an established ratio of fixed rate to floating rate and target a position in the range which is reviewed every calendar quarter, depending upon underlying interest rate exposures and economic conditions. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Notes to the Condensed Financial Statements

continued

4. FUNCTIONAL CURRENCY

On 5 July 2005, Tenon formally adopted the United States dollar as both its functional and reporting currency following the sale of the Group's Australasian based Structural Consumer Solutions business. The majority of the Group's revenues and cash flows are generated in United States dollars.

The primary financial statements have been translated to New Zealand dollars for information purposes at the average exchange rate prevailing during the period (NZ\$1 = US\$0.6950) for earnings and cash flows and the closing exchange rate on 31 December 2005 (NZ\$1 = US\$0.6823) for the balance sheet.

5. IMPAIRMENT CHARGE

During the period, the Group decided to exit its European furniture development business. The impairment charge includes the costs of exiting the Group's 20% investment in Zenia House and the write down of related inventory and debtors to the amount expected to be recovered following the exit.

6. FINANCE COSTS

	Dec 2005 US\$m	June 2005 US\$m	Dec 2004 US\$m
Interest Expense	0.2	1.6	0.7
Amortisation of Fair Value Discount – Deferred Settlement	0.8	1.9	0.9
	1.0	3.5	1.6

7. SEGMENTAL INFORMATION SUMMARY

The Group is represented by a single Appearance Consumer Solutions segment.

	Dec 2005 US\$m	June 2005 US\$m	Dec 2004 US\$m
Segmental Revenue: ⁽¹⁾			
Appearance	166.9	280.4	134.8
Discontinued	–	163.5	104.0
	166.9	443.9	238.8
Segmental Earnings: ⁽²⁾			
Appearance	1.1	12.0	8.9
Discontinued	–	2.7	2.6
	1.1	14.7	11.5

(1) Segmental Revenue includes Sales Revenue (December 2005: \$167.4 million) and Share of (Loss)/Profit from Joint Ventures (December 2005: loss of \$0.5 million).

(2) Segmental Earnings is represented by Operating Profit before Finance Costs (December 2005: \$2.8 million) excluding Dividend Income (December 2005: \$1.7 million).

Notes to the Condensed Financial Statements

continued

8. CAPITAL

	Dec 2005 US\$m	Tenon Group June 2005 US\$m	Dec 2004 US\$m
Capital			
Reported Capital:			
Reported Capital at the beginning of the period	540.3	692.2	692.2
Movement in Presentation Currency	-	77.4	93.7
Capital Return ⁽¹⁾	-	-229.3	-
Reported Capital	540.3	540.3	785.9

	Dec 2005	Tenon Group June 2005	Dec 2004
Tenon Ordinary Shares			
Number of Shares at the beginning of the period	69,697,637	92,950,230	92,950,230
Cancellation of Shares upon Capital Return ⁽¹⁾	-	-69,720,362	-
Share Amalgamation ⁽²⁾	-	46,467,769	-
	69,697,637	69,697,637	92,950,230

Tenon Preference Shares			
Number of Shares at the beginning of the period	-	185,901,831	185,901,831
Cancellation of Shares upon Capital Return ⁽¹⁾	-	-139,434,062	-
Share Amalgamation ⁽²⁾	-	-46,467,769	-
	-	-	185,901,831

(1) On 16 February 2005, Tenon returned \$229.3 million of capital to shareholders under a share cancellation and return of capital programme authorised by shareholders and approved by the High Court. Three out of every four Ordinary Shares and three out of every four Preference Shares in Tenon Limited were cancelled, and NZ\$1.5333 per cancelled share paid to Tenon shareholders.

(2) On 16 February 2005, the distinction between the Company's Ordinary and Preference Shares was removed. Effective from 16 February 2005 the Company has only one class of share on issue.

Shares held by the Tenon Employee Share Purchase Scheme accounted for under the Treasury Stock method include 198,360 (June 2005: 198,360; December 2004: 198,360) fully paid Tenon Limited Ordinary Shares.

Notes to the Condensed Financial Statements

continued

9. RESERVES

	Dec 2005 US\$m	Tenon Group June 2005 US\$m	Dec 2004 US\$m
Retained Earnings:			
Opening Balance	-423.9	-425.3	-425.3
Net Profit after Taxation	2.4	40.8	12.5
Movement in Presentation Currency	-	-39.4	-51.7
	-421.5	-423.9	-464.5
Net Currency Translation:			
Opening Balance	5.4	28.5	28.5
Net variations on Translation of Foreign Currency Financial Statements	-0.4	-23.1	-4.8
	5.0	5.4	23.7
Total Reserves	-416.5	-418.5	-440.8

10. DEFERRED SETTLEMENT

Opening Balance	30.3	22.8	22.8
Finance Costs – Amortisation of Fair Value Discount	0.8	1.9	0.9
Fair Value of Deferred Settlement on Acquisition	18.1	1.4	-
Change in Fair Value	-	4.2	-
Purchase of Minority Interest in The Empire Company, Inc.	-29.4	-	-
	19.8	30.3	23.7

On the date of the transition to NZ IFRS, the Group recognised a deferred settlement liability for an option that allowed the minority shareholders in The Empire Company, Inc. to put their remaining equity to Tenon. The fair value of the liability, after applying discounted cash flow analysis at a rate of 8% per annum, was \$22.8 million.

At June 2005, the fair value of the liability was increased by \$4.2 million due to the increase in the expected exercise price of the put option. There was a corresponding increase of \$4.2 million to goodwill. During April 2005, the Group purchased 100% of Kok's Woodgoods, Inc. with a portion of the settlement being deferred (\$1.4 million).

In November 2005, the Group purchased 51% of Southwest Mouldings Co. and entered into an option that allows the minority shareholders to put their remaining equity to Tenon from July 2007 for a period of two years. The estimation of the fair value of the liability, after applying discounted cash flow analysis at a rate of 8% per annum, is \$18.1 million.

Notes to the Condensed Financial Statements

continued

11. DISCONTINUED OPERATIONS

The following information details the balance sheet and statement of cash flows for the Discontinued Operations of the Tenon Group relating to the Structural Consumer Solutions business disposed of in April 2005 and the forestry activities disposed of during 2004.

Balance Sheet

as at 31 December 2005

	Dec 2005 US\$m	June 2005 US\$m	Dec 2004 US\$m
Assets			
Inventory	–	–	24.5
Debtors	–	–	22.7
Forest Crop ⁽¹⁾	1.3	5.0	7.1
Total Current Assets	1.3	5.0	54.3
Fixed Assets	–	–	55.8
Total Discontinued Group Assets	1.3	5.0	110.1
Liabilities			
Creditors	3.0	8.4	19.9
Total Discontinued Group Liabilities	3.0	8.4	19.9

(1) For December 2005, a balance of \$1.3 million (June 2005: \$5.0 million; December 2004: \$7.1 million) remains as forests available for sale.

Statement of Cash Flows

for period ended 31 December 2005

	Six Months Dec 2005 US\$m	Year Ended June 2005 US\$m	Six Months Dec 2004 US\$m
Net Cash from Operating Activities	–	3.6	–
Net Cash (to)/from Investing Activities	-1.0	161.0	51.8
Net Cash to Financing Activities	–	-0.8	-0.2
Net Cash (to)/from Discontinued Activities	-1.0	163.8	51.6

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS

The Group's financial statements for the year ended 30 June 2006 will be prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS). The Group's previous financial statements were prepared in accordance with New Zealand Financial Reporting Standards (NZ FRS).

These are the Group's first interim condensed financial statements prepared in accordance with NZ IAS 34, Interim Financial Statements.

The Group's accounting policies have been applied in preparing the interim condensed financial statements for the six months ended 31 December 2005, the comparative information presented in these financial statements for the six months ended 31 December 2004 and for the year ended 30 June 2005 and in the preparation of an opening NZ IFRS balance sheet at 1 July 2004 (the Group's date of transition).

Exemptions from full retrospective application elected by the Group under NZ IFRS 1

NZ IFRS 1 allows a number of optional exemptions from full retrospective application. The following exemptions were applicable to the Group's first time adoption of NZ IFRS:

(a) Business combinations exemption

The Group has elected to apply the business combinations exemption. The Group has not restated business combinations that took place prior to 1 July 2004.

(b) Fair value as deemed cost exemption

The Group has elected not to set the fair value as the deemed cost of property, plant and equipment or intangible assets. The Group continues to record property, plant, equipment and intangible assets at historic cost.

(c) Employee benefits exemption

The Group has elected not to recognise any actuarial gains and losses, in excess of the 10% "corridor" in full, as the Group's under funded defined benefit pension fund liability is fully accrued.

(d) Cumulative translation differences exemption

The Group has elected not to transfer the balance of the foreign currency translation reserve to retained earnings at the date of transition to NZ IFRS.

(e) Compound financial instruments exemption

The Group does not have compound debt and equity financial instruments.

(f) Exemption from restatement of comparatives for financial instruments

The Group did not have any derecognised financial assets and liabilities for the comparative periods under the previously adopted accounting policies.

(g) Designation of financial assets and financial liabilities exemption

The Group has elected to designate financial instruments as a financial asset or liability at 1 July 2004.

(h) Share-based payment transactions exemption

The Group has elected to apply the share-based payment exemption that allowed the Group to allocate the cost of share-based payments (issued during December 2003) for options issued after 7 November 2002. The cost of employee options were fully accrued at 1 July 2004.

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS continued

Reconciliation of net profit previously reported under NZ FRS as presented in New Zealand dollars to NZ IFRS presented in United States dollars

Income Statement for the year ended 30 June 2005	Note	NZ GAAP NZ\$m	NZ GAAP US\$m	Restatement to NZ IFRS US\$m	NZ IFRS US\$m
Revenue		396.9	275.9	–	275.9
Cost of Sales		-302.1	-210.1	–	-210.1
Gross Profit		94.8	65.8	–	65.8
Dividend Income		7.6	5.4	–	5.4
Share of Profit from Joint Ventures		6.2	4.5	–	4.5
Distribution Expense	G	-67.9	-47.3	-0.6	-47.9
Administration Expense	H	-15.9	-11.1	0.7	-10.4
Operating Profit before Financing Costs		24.8	17.3	0.1	17.4
Financial Income		8.3	5.4	–	5.4
Finance Costs	I	-1.8	-1.6	-1.9	-3.5
Net Financing Revenue/(Expense)		6.5	3.8	-1.9	1.9
Profit before Taxation		31.3	21.1	-1.8	19.3
Income Tax Expense		-9.1	-6.2	–	-6.2
Profit after Taxation		22.2	14.9	-1.8	13.1
Minority Interest	J	-4.3	-3.0	3.0	–
Net Profit from Continuing Operations		17.9	11.9	1.2	13.1
Net Profit from Discontinued Operations	K	11.2	8.2	19.5	27.7
Net Profit after Taxation		29.1	20.1	20.7	40.8

The income statement has been translated from New Zealand dollars to United States dollars at an average foreign exchange rate of NZ\$1 = US\$0.6956.

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS *continued***Reconciliation of net profit previously reported under NZ FRS as presented in New Zealand dollars to NZ IFRS presented in United States dollars**

Income Statement for the year ended 31 December 2004	Note	NZ GAAP NZ\$m	NZ GAAP US\$m	Restatement to NZ IFRS US\$m	NZ IFRS US\$m
Revenue		195.1	131.8	–	131.8
Cost of Sales		-145.8	-98.6	–	-98.6
Gross Profit		49.3	33.2	–	33.2
Dividend Income		4.5	3.0	–	3.0
Share of Profit of Associates		4.4	3.0	–	3.0
Distribution Expense	G	-32.2	-21.8	-0.2	-22.0
Administration Expense	H	-8.3	-5.6	0.3	-5.3
Operating Profit before Financing Costs		17.7	11.8	0.1	11.9
Financial Income		5.8	4.0	–	4.0
Finance Costs	I	-1.0	-0.7	-0.9	-1.6
Net Financing Revenue/(Expense)		4.8	3.3	-0.9	2.4
Profit before Taxation		22.5	15.1	-0.8	14.3
Income Tax Expense		-6.5	-4.4	–	-4.4
Profit after Taxation		16.0	10.7	-0.8	9.9
Minority Interest	J	-2.5	-1.7	1.7	–
Net Profit from Continuing Operations		13.5	9.0	0.9	9.9
Net Profit from Discontinued Operations	K	3.8	2.6	–	2.6
Net Profit after Taxation		17.3	11.6	0.9	12.5

The income statement has been translated from New Zealand dollars to United States dollars at an average foreign exchange rate of NZ\$1 = US\$0.6760.

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS continued

Reconciliation of net equity previously reported under NZ FRS as presented in New Zealand dollars to NZ IFRS presented in United States dollars

Balance Sheet as at 30 June 2005	Note	NZ FRS NZ\$m	NZ FRS US\$m	Restatement to NZ IFRS US\$m	NZ IFRS US\$m
Assets					
Current Assets:					
Cash and Liquid Deposits		50.8	35.5	–	35.5
Inventory		60.0	41.9	–	41.9
Debtors		50.4	35.3	–	35.3
Current Assets – Discontinued Operations		7.2	5.0	–	5.0
Total Current Assets		168.4	117.7	–	117.7
Term Assets:					
Fixed Assets	A	43.0	30.1	-2.1	28.0
Investments		29.2	20.4	–	20.4
Goodwill	B	12.0	8.4	23.4	31.8
Deferred Taxation Asset		7.6	5.3	–	5.3
Total Group Assets		260.2	181.9	21.3	203.2
Liabilities and Group Equity					
Liabilities					
Current Liabilities:					
Creditors	C	45.8	30.6	0.3	30.9
Provision for Current Taxation		3.9	2.8	–	2.8
Current Liabilities – Discontinued Operations		12.1	8.4	–	8.4
Total Current Liabilities		61.8	41.8	0.3	42.1
Term Liabilities:					
Term Debt		11.7	8.2	–	8.2
Provisions		1.2	0.8	–	0.8
Deferred Settlement	D	–	1.4	28.9	30.3
Total Group Liabilities		74.7	52.2	29.2	81.4
Group Equity					
Capital		773.0	540.3	–	540.3
Reserves	F	-600.0	-419.3	0.8	-418.5
Group Equity		173.0	121.0	0.8	121.8
Minority Equity	E	12.5	8.7	-8.7	–
Total Group Equity		185.5	129.7	-7.9	121.8
Total Group Liabilities and Equity		260.2	181.9	21.3	203.2

The balance sheet has been translated from New Zealand dollars to United States dollars at the closing foreign exchange rate of NZ\$1 = US\$0.6989.

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS *continued***Reconciliation of net equity previously reported under NZ FRS as presented in New Zealand dollars to NZ IFRS presented in United States dollars**

Balance Sheet as at 31 December 2004	Note	NZ FRS NZ\$m	NZ FRS US\$m	Restatement to NZ IFRS US\$m	NZ IFRS US\$m
Assets					
Current Assets:					
Cash and Liquid Deposits		213.6	153.5	–	153.5
Inventory		58.1	41.7	–	41.7
Debtors		39.2	28.1	–	28.1
Current Assets – Discontinued Operations		75.6	54.3	–	54.3
Total Current Assets		386.5	277.6	–	277.6
Term Assets:					
Fixed Assets	A	40.0	28.7	-1.8	26.9
Investments		26.2	18.8	–	18.8
Goodwill	B	10.5	7.6	19.0	26.6
Deferred Taxation Asset		22.0	15.8	–	15.8
Term Assets – Discontinued Operations		77.6	55.8	–	55.8
Total Group Assets		562.8	404.3	17.2	421.5
Liabilities and Group Equity					
Liabilities					
Current Liabilities:					
Creditors	C	30.2	20.9	0.3	21.2
Provision for Current Taxation		1.2	0.9	–	0.9
Current Liabilities – Discontinued Operations		27.7	19.9	–	19.9
Total Current Liabilities		59.1	41.7	0.3	42.0
Term Liabilities:					
Term Debt		13.7	9.9	–	9.9
Provisions		–	0.8	–	0.8
Deferred Settlement	D	–	–	23.7	23.7
Total Group Liabilities		72.8	52.4	24.0	76.4
Group Equity					
Capital		1,094.0	785.9	–	785.9
Reserves	F	-615.0	-441.5	0.7	-440.8
Group Equity		479.0	344.4	0.7	345.1
Minority Equity	E	11.0	7.5	-7.5	–
Total Group Equity		490.0	351.9	-6.8	345.1
Total Group Liabilities and Equity		562.8	404.3	17.2	421.5

The balance sheet has been translated from New Zealand dollars to United States dollars at the closing foreign exchange rate of NZ\$1 = US\$0.7184.

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS continued

Reconciliation of net equity previously reported under NZ FRS as presented in New Zealand dollars to NZ IFRS presented in United States dollars

Balance Sheet as at 1 July 2004	Note	NZ FRS NZ\$m	NZ FRS US\$m	Restatement to NZ IFRS US\$m	NZ IFRS US\$m
Assets					
Current Assets:					
Cash and Liquid Deposits		141.0	89.2	–	89.2
Inventory		52.0	32.9	–	32.9
Debtors		42.0	26.6	–	26.6
Current Assets – Discontinued Operations		204.0	129.1	–	129.1
Total Current Assets		439.0	277.8	–	277.8
Term Assets:					
Fixed Assets	A	43.9	27.8	-1.7	26.1
Investments		34.0	21.5	–	21.5
Goodwill	B	12.0	7.6	18.8	26.4
Deferred Taxation Asset		22.0	13.9	–	13.9
Term Assets – Discontinued Operations		72.1	45.6	–	45.6
Total Group Assets		623.0	394.2	17.1	411.3
Liabilities and Group Equity					
Liabilities					
Current Liabilities:					
Creditors	C	34.9	22.1	0.3	22.4
Provision for Current Taxation		0.9	0.6	–	0.6
Current Liabilities – Discontinued Operations		54.1	34.2	–	34.2
Total Current Liabilities		89.9	56.9	0.3	57.2
Term Liabilities:					
Term Debt		34.0	21.5	–	21.5
Provisions		1.1	0.7	–	0.7
Deferred Settlement	D	–	–	22.8	22.8
Total Group Liabilities		125.0	79.1	23.1	102.2
Group Equity					
Capital		1,094.0	692.2	–	692.2
Reserves	F	-624.0	-394.8	-2.0	-396.8
Group Equity		470.0	297.4	-2.0	295.4
Minority Equity	E	28.0	17.7	-4.0	13.7
Total Group Equity		498.0	315.1	-6.0	309.1
Total Group Liabilities and Equity		623.0	394.2	17.1	411.3

The balance sheet has been translated from New Zealand dollars to United States dollars at the closing foreign exchange rate of NZ\$1 = US\$0.6327.

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS *continued*

	Note	30 June 2005 US\$m	31 Dec 2004 US\$m	1 July 2004 US\$m
A Fixed Assets				
Previously reported NZ FRS		30.1	28.7	27.8
Reversal of Capitalised Costs		-2.1	-1.8	-1.7
Restated NZ IFRS		28.0	26.9	26.1

Certain capitalised costs relating to in-store merchandising and market development have been reversed from fixed assets.

B Goodwill				
Previously reported NZ FRS		8.4	7.6	7.6
Empire Deferred Settlement	D	23.0	18.8	18.8
Write-back of goodwill amortisation		0.4	0.2	–
Restated NZ IFRS		31.8	26.6	26.4

The recognition of a deferred settlement liability in relation to a put option held by the minority shareholders in The Empire Company, Inc. ("Empire") requires the Group to recognise a full equity interest of 100% rather than the previously recognised and settled 67% ownership. The restatement increases goodwill to the extent that the fair value of the deferred settlement liability exceeds the fair value of the assets to be acquired from the minority shareholders in Empire. The increase from \$18.8 million to \$23.0 million at June 2005 represents the increase in the fair value of the discounted liability.

C Creditors				
Previously reported NZ FRS		30.6	20.9	22.1
Long Service Leave		0.3	0.3	0.3
Restated NZ IFRS		30.9	21.2	22.4

In accordance with NZ IAS 19, the provision for long service leave is calculated as the present value of the future benefit that employees have earned in return for their service in past periods. Under previously reported NZ FRS, this provision was recognised when the employees' long service leave days vested.

D Deferred Settlement				
Previously reported NZ FRS		1.4	–	–
Empire Deferred Settlement		28.9	23.7	22.8
Restated NZ IFRS		30.3	23.7	22.8

A deferred settlement liability has been created in relation to the put option held by minority shareholders of the non-wholly owned subsidiary, The Empire Company, Inc. The put option provided the minority shareholders with the right, but not the obligation, to put their shareholding to Tenon. NZ IFRS requires that the option be recognised as a financial liability fair valued to the Group's best estimate of the settlement amount, discounted to its present value. The fair value is reviewed at each reporting date, with any adjustment (net of the discounting charge), having a corresponding uplift/reduction to goodwill. The discounting expense is recognised in the income statement within Finance Costs. The liability has been discounted at 8% per annum.

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS continued

	Note	30 June 2005 US\$m	31 Dec 2004 US\$m	1 July 2004 US\$m
E Minority Equity				
Previously reported NZ FRS		8.7	7.5	17.7
Empire Deferred Settlement	D	-8.7	-7.5	-4.0
Restated NZ IFRS		-	-	13.7

The recognition of a deferred settlement liability for The Empire Co. Inc. and Southwest Mouldings Co. results in the minority interest in equity being fair valued to \$nil. The remaining minority interest at 1 July 2004 relates to the minority equity in Tarawera Forests Limited that was acquired by the Group in November 2004.

F Reserves				
Previously reported NZ FRS		-419.3	-441.5	-394.8
Effect of cumulative NZ IFRS Asset and Liability Adjustments:				
Reversal of Capitalised Costs	A	-2.1	-1.8	-1.7
Long Service Leave	C	-0.3	-0.3	-0.3
Deferred Settlement	B, D	3.2	2.8	-
Restated NZ IFRS		-418.5	-440.8	-396.8

		30 June 2005 US\$m	31 Dec 2004 US\$m
G Distribution Expense			
Previously reported NZ FRS		-47.3	-21.8
Expensing of costs previously capitalised		-1.0	-0.4
Reversal of amortised costs		0.4	0.2
Restated NZ IFRS		-47.9	-22.0

In-store merchandising costs previously capitalised as a fixed asset are now written off as incurred under NZ IFRS.

Notes to the Condensed Financial Statements

continued

12. EXPLANATION OF TRANSITION TO NZ IFRS *continued*

	Note	30 June 2005 US\$m	31 Dec 2004 US\$m
H Administration Expense			
Previously reported NZ FRS		-11.1	-5.6
Reversal of amortisation expense		0.7	0.3
Restated NZ IFRS		-10.4	-5.3

The amortisation charge for costs previously capitalised is reversed from the income statement under NZ IFRS.

I Finance Costs			
Previously reported NZ FRS		-1.6	-0.7
Amortisation of Fair Value Discount	D, F, J	-1.9	-0.9
Restated NZ IFRS		-3.5	-1.6

The deferred settlement discount amortisation represents the reversal of the discounting of the deferred settlement liability.

J Minority Interest			
Previously reported NZ FRS		-3.0	-1.7
Empire Deferred Settlement	D, E, G, I	3.0	1.7
Restated NZ IFRS		-	-

Following the recognition of the deferred settlement liability, the minority interest in equity of the non-wholly owned subsidiary, The Empire Company, Inc. has been reclassified.

K Net Profit from Discontinued Operations			
Previously reported NZ FRS		8.2	2.6
Currency Translation Reserve transfer		19.5	-
Restated NZ IFRS		27.7	2.6

Following the sale of the Structural business in April 2005, \$19.5 million was reclassified from the currency translation reserve to the income statement.

13. POST BALANCE DATE EVENTS

There were no events post balance date that would cause a material misstatement to the financial information presented in this interim condensed financial report.

TENON LIMITED

Investor Information

Tenon reports six-monthly for the half year (to 31 December) and full year (to 30 June).

Copies of the Half Year and Annual Reports are available on the Company's website, www.tenon.co.nz.

DIVIDEND

There is no 2006 interim dividend for Tenon shareholders.

SHARE REGISTRY ENQUIRIES

Shareholders with enquiries about share transactions or changes of address should contact the share registrar:

Computershare Investor Services Limited
Private Bag 92-119,
Auckland 1020, New Zealand
Level 2, 159 Hurstmere Road,
Takapuna, North Shore City
Telephone: 64-9-488-8777
Facsimile: 64-9-488-8787
Email: enquiry@computershare.co.nz

OTHER INVESTOR ENQUIRIES/REGISTERED OFFICE

Investor Relations
Tenon Limited
8 Rockridge Avenue,
Penrose, Auckland
Private Bag 92-036,
Auckland 1030, New Zealand
Telephone: 64-9-571-9800
Facsimile: 64-9-571-9801
Email: investor-relations@tenon.co.nz

FORWARD-LOOKING STATEMENTS

Except to the extent that they relate to historic information, there are statements included in this document which are "forward-looking statements". As forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Tenon, its operations, the markets in which it competes and other factors (some of which are beyond the control of Tenon). Accordingly, actual results and conditions may differ materially from those expressed or implied by such statements.

Tenon Limited
Half Year Report 2005-2006

www.tenon.co.nz