



RUBICON

CONTENTS

- 01** Six Month Review
- 10** Financial Statements
- 14** Notes to the Financial Statements
- IBC** Contact Details



Six Month Review

The six months to December 2005 was a challenging one for the Company. Whilst we made progress on all “controllable” issues during the six months and advanced our businesses accordingly, there were some events outside our control that did not fall in our favour. Fortunately, for the most part those events were transitory, and although they have had a one-off impact in the period under review, they should not have any lingering effect.

Overall, progress in each of our underlying businesses was good. Examples here included:

- Tenon's acquisition of Southwest Mouldings in Texas;
- Weyerhaeuser joining ArborGen's clonal testing consortium in the United States;
- Horizon2 acquiring the Treecorp nursery in Victoria, Australia;
- Forestadora Tapebicuá advancing debt-restructuring negotiations with its core banker.

In addition, during the period we took the opportunity to tidy up the capital base of the Company, and to provide Shareholders with liquidity to either buy up or sell-down their shareholdings in Rubicon under the Rubicon 2000 Share Plan – a very well-received initiative that we implemented in conjunction with the Company's ongoing on-market share buyback programme.

This period we have adopted International Financial Reporting Standards (IFRS) in conjunction with US dollar reporting (reflecting Rubicon's functional currency). The accounting rules require us to restate prior periods and to show the impact of the change on the Company's financial statements. Accordingly, the financial statements in this interim report are more voluminous than they would otherwise be.

These and other events of the past six months are discussed in more detail below.



TENON

Tenon reported earnings before interest, tax, depreciation and amortisations (and a US\$0.7 million one-off impairment charge) of US\$5.9 million. While this result was exactly in line with market expectations and the guidance Tenon had previously given the market, it is not an earnings level with which we are satisfied. Accordingly, Tenon has now put in place strategic and earnings-based initiatives to significantly improve its second half performance, including:

- The acquisition (in November 2005) of 51% of Southwest Mouldings for US\$16.6 million. Southwest is a Texas-based stair parts, mouldings and millwork manufacturer and distributor to the Texas pro-dealer segment. The acquisition is important to Tenon not only because it extends Tenon's national footprint in the United States, but also because it widens its customer base beyond the large national home centre customers;
- The acquisition of the remaining 33% interest in Empire, extending Tenon's investment in its US distribution network;
- The commercialisation of Armourwood, Tenon's new primed and treated outdoor finishing product for the US housing market. Armourwood is already sold in over 100 stores in North America;
- The introduction of a cost-out programme at AWM to address the difficult trading conditions experienced in the past six months – US\$2.5 million of cost reduction initiatives have now been put in place at AWM;
- The re-negotiation of freight rates and routes from New Zealand;
- US\$1.3 million per annum of cost savings from the replacement of natural gas with geothermal energy at the Taupo manufacturing site (to be commissioned in the fourth quarter of the current financial year); and
- The exit of all activities and businesses inconsistent with Tenon's sole focus on the North American marketplace. Consistent with this, a US\$0.7 million one-off impairment charge was made in the period in respect of Tenon's complete exit from its European furniture development activities with Zenia House.

Largely as a result of the above initiatives and a more favourable exchange rate environment, Tenon is now forecasting much stronger EBITDA in the second half of the year – approximately US\$15 million – taking the full year forecast EBITDA to around

US\$21 million. While there is the inevitable uncertainty around this projection – it is dependent on unknown future events such as demand and pricing from Tenon's large customers and the path of the NZ exchange rate – if achieved, it would be a very impressive turn-around in Tenon's financial performance.

Tenon recently announced that as it believed its share price was significantly under-valued it would be undertaking an on-market share buyback of up to 5% of its outstanding share capital. Rubicon does not intend to participate in Tenon's buyback, preferring instead to increase our relative ownership percentage in Tenon. If Tenon does buy back 5% of its outstanding shares, our current ownership interest in Tenon would move to approximately 60% (our interest in Tenon as at the date of this report is 54.8%). We believe that the combination of increased liquidity in Tenon shares resulting from Tenon's share buyback, improved financial performance if Tenon can meet its forecast second half earnings, and a weaker NZ exchange rate, will all co-operate to close some of the current Tenon share price value gap.

Tenon's activities and outlook are explained fully in its interim report. Rather than repeat the detail here, that report can be viewed on the Tenon website at www.tenon.co.nz.

ARBORGEN

ArborGen made excellent progress in the period.

Science and trial progress on ArborGen's product portfolio proceeded to plan. The *Improved Pulping Eucalypt* project in Brazil has moved on to customer field trials. Field-grown data confirms a 20% reduction in lignin, with some lines achieving well in excess of 30%. Pleasingly, wood density appears to be unaffected by lignin reduction, and a positive trend of increased pulp yield with lower lignin levels has also been shown. The project focusing on an *Improved Pulping Hardwood (for the US)* has advanced its analysis of cold-tolerant Eucalypt. Freezing tolerance has now been shown in chamber tests, on selected Eucalypt clonal varieties utilising ArborGen's cold-tolerant genes. Field trials in the US South have also demonstrated similar results. ArborGen is now pursuing large-scale product development tests for this product. The *Short Rotation Improved Pine* product continues to show strong potential. Although early days, ArborGen's initial growth modelling projections based on trial results today show it is possible to achieve per acre yield increases in the range of 45-70% – a very significant increase.



The business continued to adapt to reflect the enhanced focus on the commercialisation phase of its life. This included an increased emphasis on the recruitment of specialists in manufacturing and market/business development, and improved risk management of ArborGen's increasingly sophisticated laboratory and field trial database.

On the customer front, Weyerhaeuser, the second largest corporate planter of forestry trees in the United States, joined International Paper and MeadWestvaco in the ArborGen Testing Service (ATS) to jointly test and select elite loblolly pine clonal varieties. This is the first time that multiple forest products companies have jointly tested their proprietary varieties in forestry. Initially, International Paper, MeadWestvaco and Weyerhaeuser will be contributing their elite seeds, but it is expected that other companies and universities will soon also become participants in the ATS. The ATS will co-ordinate the field trials of the varieties in various forest zones throughout the south-eastern United States.

Progress has also been made in the Brazilian market, where several significant agreements delivering joint-ownership of customers' superior Eucalyptus clonal varieties in return for ArborGen providing genetic transformation services and capability have been achieved.

Over the next 12 months, the core strands to ArborGen's commercialisation focus will remain the same – i.e. ongoing product development, regulatory and public acceptance, customer acquisition (including through the expansion of customer-site field trials), and achieving a low-cost manufacturing process for the mass-production of plantable forestry tree seeds from improved embryos.

In addition, we are hopeful that the dispute ArborGen has had with Genesis will be put behind it in this next quarter, clearing the way for ArborGen management to focus solely on advancing the commercial prospects of the joint venture.

FORESTADORA TAPEBICUÁ (FTSA)

Argentina enjoyed strong economic growth in the second half of 2005, and FTSA was able to translate this into further improvements in revenues and operating cash flow over previous periods.

Monthly sales averaged a new high of some 4.3 million pesos – with 66% coming from plywood sales and the balance from the company's lumber and moulding operations. Approximately 85% of the total sales volume was generated from the domestic market. Revenue growth was achieved through improved price realisation as market conditions



improved, and also through greater attention to grade-mix and quality issues rather than through increased volume alone.

Operating cash flow for the six-month period, at some 3.8 million pesos, was also up on prior periods, allowing some 2.2 million pesos to be reinvested in the business. The largest components of this capital investment related to improvements to the boiler plant and initial expenditure on a programme to expand and enhance the remanufacturing facility.

FTSA's bank debt has now been acquired by a third party, and at last promising initial progress has been made in the negotiation of a discount and restructure agreement – a critical step towards putting FTSA on a secure future financial path. Arbitration proceedings have been pursued to a point that brought the other shareholder to the table, and a situation has now been created where the arbitration is for the meantime on hold, while the shareholders collaborate in the interests of securing a debt deal. It remains a slow and frustrating process, but we believe that real progress has at last begun to be made.

We remain of the view that status quo in terms of FTSA's ownership structure is unacceptable, and that our only viable option is either to move to 100% ownership interest of FTSA or to exit. We will be pursuing both paths.

HORIZON2

Shareholders will be aware that New Zealand market conditions have not been favourable for Horizon2. The latest New Zealand Radiata treestock plantings figures released by the Ministry of Agriculture and Fisheries show that only 33 million Radiata treestocks were planted in 2005, dramatically down 25% from the 44 million in the previous year, 56 million five years ago, and the 100 million recorded in the mid-1990s. The recent debate around the nationalisation of forestry carbon credits is unlikely to have reversed this trend.

Rubicon has made a submission to the Government on the significant role forestry can play in assisting New Zealand to meet its Kyoto carbon emission targets – we are awaiting the announcement of the Government's soon-to-be-released land-based sustainability policies to see whether our submission has had any effect on the policy makers.

In the meantime Horizon2 has been actively working to ensure it maintains its customer base in depressed market conditions. While this has largely been achieved in volume terms (with last year's Horizon2 treestock sales representing well over half of the total New Zealand Radiata treestock market), Horizon2 has suffered from a deterioration in product



mix in its sales. As market conditions have continued to be depressed, many forest growers have moved into a cost-cutting mindset, electing to plant lower-cost seedling stock rather than the higher-value (and higher-cost) cuttings and clonal treestock offerings that Horizon2 has. To illustrate this, low-value seedlings represented less than one third of Horizon2's sales last year, but based on plantings this year the figure will be closer to 50%. The impact of this move, albeit only a response to short-term market conditions, does change the near-term earnings profile of Horizon2 significantly.

With this background, Horizon2's strategy has been to:

- Reduce the cost base of the business to align with the market size;
- Develop long-term relationships with those customers committed to advanced genetics;
- Achieve better positioning in those New Zealand market regions that are exhibiting growth in forestry; and
- Seek growth opportunities outside New Zealand.

Last year we had moved on the first three of these imperatives. The customer and cost reduction imperatives were addressed through the creation of Horizon2 – a merger of the separate Trees & Technology (T&T) and CHH's Forest Genetics businesses. As a fundamental term of the merger, CHH committed to make certain future annual treestock purchases exclusively from Horizon2 – thereby locking in the value of a long-term cornerstone clonal customer. We addressed the regional positioning of the business through the purchase of Puha – then New Zealand's largest private nursery operating in the growing east coast region of the North Island.

During the past six months Horizon2 made a significant step towards satisfying the fourth imperative, through the acquisition of the Treecorp nursery business in Victoria, Australia. Treecorp is a state-of-the-art operation, with combined container and field-grown capacity of approximately 10 million treestocks per annum – although its sales were around half that level at the time of our acquisition. Since then we have aggressively grown our customer base such that in the 2006 year we will be growing and selling some 11-12 million treestocks in Australia. This represents amazing growth in this region for us. In 2003, immediately prior to the Horizon2 merger, T&T sold some 700,000 treestocks in Australia, representing only 5% of T&T's sales base. At 11-12 million treestock sales this year, our dependence on the depressed New Zealand treestock market will have moved from 95%:5% (Australia) to being weighted almost 50%:50% evenly between the two markets.

Disappointingly, just as the 2006 crop had been set, the Treecorp operation was hit by a freak hailstorm. The storm was of such intensity that it destroyed the protective cladding of the container facility, causing the complete loss of the container seedling crop. The crop was immediately replanted and will be available to meet all 2006 planting season supply contracts, but the cost incurred in so doing was expensed in the period. The impact of the hailstorm, and the change in treestock product mix noted above, resulted in a break-even EBITDA result being recorded for the six months – a result that reflects depressed current market conditions rather than the true potential of the business longer term.

GOVERNANCE

Rubicon has decided to be an early adopter of IFRS. Whilst the impact on our financial statements is not great, we are required to give shareholders a large amount of information on the change. Consequently our financial statements in this interim report are more extensive than they would otherwise need to be.

You will also see that our accounts are now reported in US dollars. This follows the decision we announced in the period to move Rubicon's functional currency to the US dollar, reflecting the underlying economic reality that the driver currency of most of our operations and investments is the US dollar. Our major subsidiary, Tenon, is now also reporting in US dollars.

Rubicon's share register changed significantly during the period, with our 20% shareholder, Guinness Peat Group Limited, selling down its shareholding in a placement primarily to new and existing US-based investors. While we were very pleased to see a shareholding of this size being able to be placed "overnight," the placement had the effect of satisfying most of the short-term buying demand for Rubicon shares in the market. This fact, combined with Tenon's short-term earnings downgrade, has put price and liquidity pressure on our shares, resulting in an unwelcome fall in our share price in the period. Given this, and the belief that Rubicon's shares are significantly under-valued, we announced to the market in November that we would be undertaking an on-market buyback of Rubicon shares. We have since repurchased on-market almost 10% of Rubicon's outstanding shares, acquiring 27 million shares at an average price of 89 cents per share, or only 2 cents per share above the pre-announcement buyback share price. This is an extremely good outcome for Rubicon's remaining shareholders.

During the period we also put in place the Rubicon 2000 Share Plan, which allowed shareholders with less than 2,000 shares the brokerage-free opportunity to sell out entirely (if less than 500 shares held) or to buy up to a 2,000 shareholding level. We are pleased to report that over 1,800 shareholders participated in this opportunity, with 1,100 electing to buy additional Rubicon shares – 90% of whom bought up to the maximum 2,000 share level – a very pleasing outcome for us.

In order to tidy up the Company's share register, on 27 February we compulsorily sold all shareholdings less than the NZX minimum holding level of 500 shares, which amounted to approximately 0.25% of the shares outstanding held by 3,610 shareholders being sold. As at the date of this report, the Company has approximately 11,000 shareholders on its register, holding a total of 256 million shares.

FINANCIAL

The table below shows a simplified analysis of Rubicon's consolidated operating earnings for the period. As we have noted previously, an earnings analysis does not show the full value picture for Rubicon, as ArborGen in particular is still a developing business and its true value is not captured in its earnings contribution. In time, we believe it will be.

Rubicon Earnings Analysis	US\$m
Tenon	5.9
ArborGen	(1.2)
Horizon2	–
FTSA	0.2
Corporate	(1.5)
Operating Earnings before depreciation	3.4

Operating earnings before depreciation of US\$3.4 million compares with earnings of US\$1.9 million in the previous period, and reflects the consolidation of Tenon for the full six months (previous period for one month). This positive result includes a loss of US\$1.2 million from ArborGen relating primarily to expenditure in the year that is research rather than development in nature, and which is therefore expensed in our financial statements.

As Rubicon now owns more than 50% of Tenon, the balance sheet of the Tenon group is now included in Rubicon's consolidated balance sheet, which makes it a little more difficult for the reader to separate out the funded position of Rubicon Limited. To assist in this analysis, at 31 December 2005 Rubicon Limited had no net debt, and cash on its balance sheet of US\$37 million. The US\$13 million reduction in our cash balance over the last six months related solely to our forestry and existing activities, and our capital restructuring. We expended US\$7 million acquiring our increased ownership position in Tenon, US\$3 million on our share of partner contributions to ArborGen, and US\$3 million on Rubicon's on-market share buyback. As at the date of this report, we had almost finished our second 5% on-market buyback, and had expended US\$13 million in cash funds (beyond the numbers reported above) in doing so.

The Tenon group invested US\$49 million during the period, US\$29 million in acquiring the remaining 33% equity in Empire, US\$17 million in the purchase of 51% of Southwest Mouldings, and US\$3 million on various capital projects (including the upgrade to geothermal at Taupo). Tenon ended the period with net interest bearing debt of US\$33 million.

OUTLOOK

While the period did see some events that negatively affected short-term performance, we remain comfortable that we have in place the right strategies and initiatives to significantly lift value in Rubicon in the future. Nothing has occurred in the period that has changed our fundamental belief that there is considerably more value in Rubicon than is reflected in our share price today. Accordingly, we will continue to pursue our existing strategies for unlocking value in each of our investments. At the same time we will push forward with our on-market share buyback programme – today announcing we will acquire on-market up to an additional (i.e. third) 5% of our shares (under Section 65 of the Companies Act and in accordance with NZSX Rules) – effectively increasing, at an attractive price, our continuing shareholders' exposure to the considerable upside we see in Rubicon.



Stephen Kasnet
Chairman

14 March 2006



Luke Moriarty
Chief Executive Officer

Consolidated Income Statement

For the six months ended 31 December 2005

	Notes	6 months Dec 05 NZ\$m	6 months Dec 05 US\$m	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Revenue		245.3	167.4	296.0	42.5
Cost of sales		(188.6)	(128.7)	(225.3)	(36.5)
Gross profit		56.7	38.7	70.7	6.0
Dividend income		2.5	1.7	5.4	–
Share of (loss)/profit from associates and joint ventures		(2.5)	(1.7)	3.4	0.6
Distribution expense		(45.3)	(30.9)	(51.7)	(3.6)
Administration expense		(10.2)	(7.0)	(13.9)	(2.5)
Impairment charge	4	(1.0)	(0.7)	–	–
Operating profit before financing costs		0.2	0.1	13.9	0.5
Financial income		2.5	1.7	7.7	1.0
Financial expense	5	(1.5)	(1.0)	(7.8)	(2.2)
Profit before taxation		1.2	0.8	13.8	(0.7)
Income tax expense		0.4	0.3	(6.7)	(0.6)
Profit after taxation from continuing operations		1.6	1.1	7.1	(1.3)
Net profit from discontinued operations		–	–	(2.4)	(3.6)
Net Profit		1.6	1.1	4.7	(4.9)
Attributable to:					
Equity holders of the parent		(0.2)	(0.1)	(3.3)	(5.9)
Minority interest		1.8	1.2	8.0	1.0
Net Profit		1.6	1.1	4.7	(4.9)

Per Share Information:

Basic earnings per share (cents) – continuing operations	–	(0.3)	(0.8)
Basic earnings per share (cents) – discontinued operations	–	(0.8)	(1.3)
Total basic earnings per share (cents)	–	(1.2)	(2.1)
Weighted average number of shares outstanding (millions of shares)	283	283	282

Consolidated Statement of Recognised Income and Expenses

For the six months ended 31 December 2005

	6 months Dec 05 NZ\$m	6 months Dec 05 US\$m	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Net earnings attributable to:				
Rubicon shareholders	(0.2)	(0.1)	(3.3)	(5.9)
Minority shareholders	1.8	1.2	7.9	1.0
Translation differences attributable to:				
Rubicon shareholders	(1.4)	(1.0)	6.0	1.5
Minority shareholders	(0.4)	(0.2)	18.2	9.3
Total recognised revenue and expenses	(0.2)	(0.1)	28.8	5.9
Capital contributions – exercise of options	–	–	1.9	1.9
Return of capital to shareholders by way of share buyback	(5.4)	(3.7)	–	–
Minority interest arising from acquisition of Tenon	–	–	163.1	160.6
Minority interest disposed of from sale of Tarawera	–	–	(13.7)	–
Acquisition of Tenon minority by way of on-market share acquisition	(8.2)	(5.6)	–	–
Return of capital to Tenon minority shareholders	–	–	(114.6)	–
Total movement in shareholder equity	(13.8)	(9.4)	65.5	168.4
Movement in:				
Rubicon shareholders' equity	(7.0)	(4.8)	4.6	(2.5)
Minority shareholders' equity	(6.8)	(4.6)	60.9	170.9
Opening equity attributable to:				
Rubicon shareholders	242.0	165.1	160.5	160.5
Minority shareholders	89.3	60.9	–	–
Opening total Group equity	331.3	226.0	160.5	160.5
Closing equity attributable to:				
Rubicon shareholders	235.0	160.3	165.1	158.0
Minority shareholders	82.5	56.3	60.9	170.9
Closing Total Group Equity	317.5	216.6	226.0	328.9

Consolidated Statement of Cash Flow

For the six months ended 31 December 2005

	6 months Dec 05 NZ\$m	6 months Dec 05 US\$m	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Cash was provided from operating activities				
Receipts from customers	259.0	176.7	291.8	39.8
Dividend received	2.5	1.7	5.4	–
Cash provided from operating activities	261.5	178.4	297.2	39.8
Payments to suppliers, employees and other	(264.1)	(180.2)	(290.2)	(42.2)
Income tax paid	(5.9)	(4.0)	(8.8)	(2.5)
Cash (used in) operating activities	(270.0)	(184.2)	(299.0)	(44.7)
Net cash from (used in) operating activities	(8.5)	(5.8)	(1.8)	(4.9)
Sale of fixed assets	0.3	0.2	0.3	0.2
Investment in fixed assets	(4.3)	(2.9)	(3.9)	(1.2)
Investment in associates and other	(3.8)	(2.6)	(10.2)	(3.9)
Investment in subsidiaries	(79.1)	(54.0)	(109.9)	(106.5)
Cash in subsidiaries acquired	–	–	1.3	1.3
Movement in loans to associates	–	–	5.6	–
Net cash from (used in) investing activities	(86.9)	(59.3)	(116.8)	(110.1)
Debt drawdowns	32.2	22.0	142.1	47.4
Interest received	2.5	1.7	7.5	1.0
Debt repayment	–	–	(178.7)	(21.9)
Interest paid	(0.1)	(0.1)	(5.8)	(2.2)
Capital contributions	–	–	1.9	1.9
Capital return to Tenon minority shareholders	–	–	(114.6)	–
Capital return by way of share buyback	(5.4)	(3.7)	–	–
Net cash from (used in) financing activities	29.2	19.9	(147.6)	26.2
Net cash from discontinued operations	(1.5)	(1.0)	279.3	114.3
Net movement in cash	(67.7)	(46.2)	13.1	25.5
Opening cash and liquid deposits	125.2	85.4	67.2	67.2
Effect of exchange rate changes on net cash	(0.2)	(0.1)	5.1	2.1
Closing Cash and Liquid Deposits	57.3	39.1	85.4	94.8
Net earnings/(deficit) from continuing operations	1.6	1.1	7.1	(1.3)
Less net financing expense/(revenue)	(1.0)	(0.7)	0.1	1.2
Adjustment for items not involving cash:				
Depreciation, amortisation, provisions and foreign exchange	4.5	3.1	5.6	1.4
Taxation	(6.3)	(4.3)	(2.1)	(1.9)
Earnings and amortisation relating to associates	2.5	1.7	(4.5)	(1.3)
Cash flow from operations before net working capital movement	1.3	0.9	6.2	(1.9)
Net working capital movement	(9.8)	(6.7)	(8.0)	(3.0)
Net cash from operating activities	(8.5)	(5.8)	(1.8)	(4.9)

Consolidated Balance Sheet

As at 31 December 2005

	Notes	Dec 05 NZ\$m	Dec 05 US\$m	Jun 05 US\$m	Sep 04 US\$m
Current assets					
Cash and liquid deposits		57.3	39.1	85.4	94.8
Debtors		42.1	28.7	35.6	53.9
Inventory		93.4	63.7	41.9	55.5
Current assets – discontinued operations		1.9	1.3	5.0	89.0
Total current assets		194.7	132.8	167.9	293.2
Current liabilities					
Creditors		(38.0)	(25.9)	(31.5)	(48.7)
Provisions		(1.3)	(0.9)	(1.6)	(1.0)
Bank loan		–	–	–	(49.5)
Current taxation liability		(1.8)	(1.2)	(2.8)	(0.7)
Current liabilities – discontinued operations		(4.4)	(3.0)	(8.4)	(11.4)
Total current liabilities		(45.5)	(31.0)	(44.3)	(111.3)
Non current assets					
Fixed assets		52.3	35.7	28.7	76.5
Investments		87.1	59.4	60.9	57.0
Goodwill		100.0	68.2	46.8	45.0
Deferred taxation asset		10.7	7.3	5.3	14.7
Total non current assets		250.1	170.6	141.7	193.2
Term liabilities					
Provisions		(0.9)	(0.6)	(0.8)	(0.7)
Deferred settlement	6	(29.0)	(19.8)	(30.3)	(22.8)
Term debt		(51.9)	(35.4)	(8.2)	(22.7)
Total term liabilities		(81.8)	(55.8)	(39.3)	(46.2)
Net Assets		317.5	216.6	226.0	328.9
Equity					
Share capital	7	243.7	166.3	160.3	160.3
Reserves	8	(8.7)	(6.0)	4.8	(2.3)
Equity attributable to Rubicon shareholders		235.0	160.3	165.1	158.0
Equity attributable to minority shareholders		82.5	56.3	60.9	170.9
Total Group Equity		317.5	216.6	226.0	328.9

Notes to the Consolidated Financial Statements

For the six months ended 31 December 2005

1 ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

Statement of compliance

The interim consolidated financial statements have been prepared in accordance with New Zealand International Accounting Standard (NZ IAS) 34, Interim Financial Reporting. 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 consolidated interim 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 September 2004 interim consolidated financial statements, as the September 2004 interim financial statements were prepared in accordance with New Zealand Financial Reporting Standards (NZ GAAP). An explanation of how the transition to NZ IFRS has affected the reported financial position, profit and loss and cash flows of the Group is provided in note 9. This note includes reconciliations of equity and profit or loss for comparative periods reported under NZ GAAP 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 consolidated financial statements and in preparing an opening NZ IFRS balance sheet at 1 April 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 consolidated financial statements is United States dollars (US\$).

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 IAS 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 consolidated 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 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 consolidated 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.

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 consolidated 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 April 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 GAAP. In accordance with NZ IFRS 1, the classification and accounting treatment of business combinations that occurred prior to 1 April 2004 have not been reconsidered in preparing the Group's opening NZ IFRS balance sheet at 1 April 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 CURRENCIES

Presentation currency

These financial statements are presented in US\$, 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 (NZ\$). The change of presentation to US\$ has been made because the predominant functional currency of the Group entities is the US\$. For the convenience of readers the primary statements have also been translated from US\$ to NZ\$, the latter being supplemental information presented solely for convenience and converted from US\$, as a matter of arithmetical computation only, at a rate on 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 US\$ on 1 July 2005. Prior to this date the functional currency of the Parent was NZ\$. The consolidated financial statements are presented in US\$.

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 are stated at fair value and 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 stated at historical cost less accumulated depreciation and impairments.

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

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.

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 and are 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 biological assets, inventories and deferred tax assets, are reviewed at each reporting 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 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 or 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. Provisions are measured at the Group's best estimate of the 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 consolidated 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 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. 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.

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 recognised income and expenses. The gains and losses on the derivative instrument that are reported in the statement of recognised income and expenses 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

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 the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance expense. The gain or loss relating to the ineffective portion is recognised in the income statement.

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 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.

Finance expense

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method and the 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

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 in relation 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 on 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.

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.

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 flow have been prepared exclusive of Goods and Services Taxation.

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 Tenon 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 Tenon 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 Tenon 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 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 impact is reflected in the Group's income statement.

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

3 FUNCTIONAL CURRENCY

On 12 August 2005, Rubicon formally adopted the US\$ as both its functional and reporting currency as following the sale of Tenon's Australasian based Structural Consumer Solutions business, the majority of the Group's revenues and cash flows are denominated in US\$.

Currency of convenience

The consolidated financial statements are expressed in US\$, the amounts pertaining to the most recent financial period are translated to NZ\$, the latter being supplemental information presented solely for convenience and converted from US\$, as a matter of arithmetical computation only, at a rate on 31 December 2005 of NZ\$1.00:US\$0.6823.

4 IMPAIRMENT CHARGE

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

5 FINANCE EXPENSE

	6 months Dec 05 US\$m	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Interest expense	(0.2)	(5.3)	(1.6)
Bank fees	–	(0.6)	(0.6)
Amortisation of fair value discount – deferred settlement	(0.8)	(1.9)	–
	(1.0)	(7.8)	(2.2)

6 DEFERRED SETTLEMENT

	Dec 05 US\$m	Jun 05 US\$m	Sep 04 US\$m
Opening balance	(30.3)	(22.8)	(22.8)
Finance expense discount – amortisation of fair value	(0.8)	(1.9)	–
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)	(22.8)

On the date of transition to NZ IFRS, the Tenon group recognised a deferred settlement liability for an option that allowed the minority shareholders in The Empire Company, Inc (Empire) 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 Tenon group purchased 100% of Kok's Woodgoods, Inc with a portion of the settlement being deferred (\$1.4 million).

In November 2005, the Tenon 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.

7 CAPITAL

	Dec 05 US\$m	Jun 05 US\$m	Sep 04 US\$m
Reported capital			
Reported capital at the beginning of the period	160.3	158.4	158.4
Movement in presentation currency ⁽¹⁾	9.7	–	–
Issue of shares	–	1.9	1.9
Return of capital by way of share buyback ⁽²⁾	(3.7)	–	–
Reported Capital	166.3	160.3	160.3

	Dec 05	Jun 05	Sep 04
Number of shares			
Opening shares on issue	283,631,406	279,021,170	279,021,170
Issue of shares ⁽³⁾	–	4,610,236	4,610,236
Shares repurchased and cancelled ⁽²⁾	(6,018,673)	–	–
Closing shares on issue	277,612,733	283,631,406	283,631,406

- (1) Due to the change in Rubicon's functional currency to US\$ historical results have had to be restated into US\$. The Movement in presentation currency represents the difference between translating our historic reported capital, for presentation purposes, at US\$0.6608: NZ\$1.00 on 1 April 2004 and the exchange rate of US\$0.7007: NZ\$1.00 on 1 July 2005, being the effective date of our adoption of the US\$ as our functional currency.
- (2) On 7 November 2005 Rubicon announced its intention to buyback up to 5% of its issued share capital. The buyback commenced on 12 December 2005 and by 31 December 2005, 6,018,673 shares had been acquired at a total cost of \$3.7 million.
- (3) On 10 June 2004, 4.6 million shares were issued upon the exercise of all of the non-executive Director options in the Company.

8 RESERVES

	Dec 05 US\$m	Jun 05 US\$m	Sep 04 US\$m
Retained earnings			
Opening balance	(1.2)	2.1	2.1
Net earnings	(0.1)	(3.3)	(5.9)
Transfer from currency translation reserve ⁽¹⁾	(3.6)	–	–
Closing balance	(4.9)	(1.2)	(3.8)

	Dec 05 US\$m	Jun 05 US\$m	Sep 04 US\$m
Currency translation reserve			
Opening balance	6.0	–	–
Movement in presentation currency	(9.7)	–	–
Translation of independent foreign operations	(1.0)	6.0	1.5
Transfer to retained earnings ⁽¹⁾	3.6	–	–
Closing balance	(1.1)	6.0	1.5
Total Reserves	(6.0)	4.8	(2.3)

- (1) As a consequence of adopting the US\$ as Rubicon's functional currency, only currency translation reserve balances relating to non US\$ functional currency assets are carried forward. All currency translation reserve balances that related to US\$ functional assets have been transferred to retained earnings.

9 EXPLANATION OF TRANSITION TO NZ IFRS

The Group's financial statements for the year ended 30 June 2006 will be prepared in accordance with NZ IFRS. The Group's previous financial statements were prepared in accordance with NZ GAAP.

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

The Group's accounting policies have been applied in preparing the consolidated interim financial statements for the six months ended 31 December 2005, the comparative information presented in these financial statements for the six months ended 30 September 2004 and for the 15 months ended 30 June 2005 and in the preparation of an opening NZ IFRS balance sheet at 1 April 2004 (the Group's Transition Date).

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 combination exemption. The Group has not restated business combinations that took place prior to Transition Date.

(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) *Compound financial instruments exemption*

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

(e) *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.

(f) *Designation of financial assets and financial liabilities exemption*

The Group has elected to designate financial instruments as a financial asset or liability at Transition Date.

(g) *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 to certain Tenon employees) for options issued after 7 November 2002. The cost of employee options has been fully accrued.

9 EXPLANATION OF TRANSITION TO NZ IFRS *continued*

Consolidated Income Statement		NZ GAAP	NZ GAAP	Effect of	NZ IFRS
For the 15 months ended 30 June 2005				Transition to IFRS	
	Notes	NZ\$m	US\$m	US\$m	US\$m
Revenue		438.0	296.0	–	296.0
Cost of sales		(333.4)	(225.3)	–	(225.3)
Gross profit		104.6	70.7	–	70.7
Dividend income		8.1	5.4	–	5.4
Share of profit from associates and joint ventures	A	3.1	2.1	1.3	3.4
Distribution expense	B	(76.9)	(52.0)	0.3	(51.7)
Administration expense	C	(21.6)	(14.6)	0.7	(13.9)
Operating profit before financing costs		17.3	11.6	2.3	13.9
Financial income		11.3	7.7	–	7.7
Financial expense	D	(7.9)	(5.3)	(2.5)	(7.8)
Profit before taxation		20.7	14.0	(0.2)	(13.8)
Income tax expense		(9.9)	(6.7)	–	(6.7)
Profit after taxation from continuing operations		10.8	7.3	(0.2)	7.1
Net profit from discontinued operations		(3.6)	(2.4)	–	(2.4)
Net Profit		7.2	4.9	(0.2)	4.7
Attributable to:					
Equity holders of the parent		(8.0)	(5.4)	2.1	(3.3)
Minority interest	E	15.2	10.3	(2.3)	8.0
Net Profit		7.2	4.9	(0.2)	4.7

Consolidated Income Statement		NZ GAAP	NZ GAAP	Effect of	NZ IFRS
For the 6 months ended 30 September 2004				Transition to IFRS	
	Notes	NZ\$m	US\$m	US\$m	US\$m
Revenue		66.3	42.5	–	42.5
Cost of sales		(57.0)	(36.5)	–	(36.5)
Gross profit		9.3	6.0	–	6.0
Share of profit from associates and joint ventures	A	0.1	0.1	0.5	0.6
Distribution expense		(5.7)	(3.6)	–	(3.6)
Administration expense		(3.9)	(2.5)	–	(2.5)
Operating profit before financing costs		(0.2)	–	0.5	0.5
Financial income		1.6	1.0	–	1.0
Financial expense	D	(2.5)	(1.6)	(0.6)	(2.2)
Profit before taxation		(1.1)	(0.6)	(0.1)	(0.7)
Income tax expense		(0.9)	(0.6)	–	(0.6)
Profit after taxation from continuing operations		(2.0)	(1.2)	(0.1)	(1.3)
Net profit from discontinued operations		(5.6)	(3.6)	–	(3.6)
Net Profit		(7.6)	(4.8)	(0.1)	(4.9)
Attributable to:					
Equity holders of the parent		(9.1)	(5.8)	(0.1)	(5.9)
Minority interest		1.5	1.0	–	1.0
Net Profit		(7.6)	(4.8)	(0.1)	(4.9)

9 EXPLANATION OF TRANSITION TO NZ IFRS *continued*

Consolidated Balance Sheet		NZ GAAP	NZ GAAP	Effect of	NZ IFRS
As at 30 June 2005				Transition to IFRS	
	Notes	NZ\$m	US\$m	US\$m	US\$m
Cash and liquid deposits		122.2	85.4	–	85.4
Debtors		51.5	35.6	–	35.6
Inventory		60.0	41.9	–	41.9
Current assets – discontinued operations		7.0	5.0	–	5.0
Total current assets		240.7	167.9	–	167.9
Creditors	F	(44.6)	(31.2)	(0.3)	(31.5)
Provisions		(2.2)	(1.6)	–	(1.6)
Current taxation liability		(4.0)	(2.8)	–	(2.8)
Current liabilities – discontinued operations		(12.0)	(8.4)	–	(8.4)
Total current liabilities		(62.8)	(44.0)	(0.3)	(44.3)
Fixed assets	G	43.9	30.8	(2.1)	28.7
Investments	H	85.3	59.6	1.3	60.9
Goodwill	I	33.1	22.1	24.7	46.8
Deferred taxation asset		8.3	5.3	–	5.3
Total non current assets		170.6	117.8	23.9	141.7
Provisions		(1.1)	(0.8)	–	(0.8)
Deferred settlement	J	(2.0)	(1.4)	(28.9)	(30.3)
Term debt		(12.0)	(8.2)	–	(8.2)
Total term liabilities		(15.1)	(10.4)	(28.9)	(39.3)
Net Assets		333.4	231.3	(5.3)	226.0
Share capital		242.6	160.3	–	160.3
Reserves		(8.7)	1.2	3.6	4.8
Equity attributable to Rubicon shareholders		233.9	161.5	3.6	165.1
Equity attributable to minority shareholders		99.5	69.8	(8.9)	60.9
Total Group Equity	K	333.4	231.3	(5.3)	226.0

9 EXPLANATION OF TRANSITION TO NZ IFRS *continued*

Consolidated Balance Sheet		NZ GAAP	NZ GAAP	Effect of	NZ IFRS
As at 30 September 2004				Transition to IFRS	
	Notes	NZ\$m	US\$m	US\$m	US\$m
Cash and liquid deposits		141.7	94.8	–	98.4
Debtors		80.5	53.9	–	53.9
Inventory		83.0	55.5	–	55.5
Current assets – discontinued operations		133.0	89.0	–	89.0
Total current assets		438.2	293.2	–	293.2
Creditors	F	(72.3)	(48.4)	(0.3)	(48.7)
Provisions		(1.5)	(1.0)	–	(1.0)
Bank loan		(74.0)	(49.5)	–	(49.5)
Current taxation liability		(1.0)	(0.7)	–	(0.7)
Current liabilities – discontinued operations		(17.0)	(11.4)	–	(11.4)
Total current liabilities		(165.8)	(111.0)	(0.3)	(111.3)
Fixed assets	G	117.0	78.2	(1.7)	76.5
Investments	H	84.5	56.5	0.5	57.0
Goodwill	I	38.5	25.8	19.2	45.0
Deferred taxation asset		22.0	14.7	–	14.7
Total non current assets		262.0	175.2	18.0	193.2
Provisions		(1.1)	(0.7)	–	(0.7)
Deferred settlement	J	–	–	(22.8)	(22.8)
Term debt		(34.0)	(22.7)	–	(22.7)
Total term liabilities		(35.1)	(23.4)	(22.8)	(46.2)
Net Assets		499.3	334.0	(5.1)	328.9
Share capital		242.6	160.3	–	160.3
Reserves		(6.3)	(2.2)	(0.1)	(2.3)
Equity attributable to Rubicon shareholders		236.3	158.1	(0.1)	158.0
Equity attributable to minority shareholders		263.0	175.9	(5.0)	170.9
Total Group Equity	K	499.3	334.0	(5.1)	328.9

9 EXPLANATION OF TRANSITION TO NZ IFRS *continued*

Consolidated Balance Sheet As at 1 April 2004	NZ GAAP	NZ GAAP	Effect of	NZ IFRS
	NZ\$m	US\$m	Transition to IFRS US\$m	US\$m
Cash and liquid deposits	101.6	67.2	–	67.2
Debtors	0.1	0.1	–	0.1
Inventory	5.5	3.6	–	3.6
Total current assets	107.2	70.9	–	70.9
Creditors	(0.5)	(0.3)	–	(0.3)
Provisions	(4.5)	(3.0)	–	(3.0)
Total current liabilities	(5.0)	(3.3)	–	(3.3)
Fixed assets	7.9	5.2	–	5.2
Investments	132.8	87.7	–	87.7
Total non current assets	140.7	92.9	–	92.9
Net Assets	242.9	160.5	–	160.5
Share capital	239.7	158.4	–	158.4
Reserves	3.2	2.1	–	2.1
Equity attributable to Rubicon shareholders	242.9	160.5	–	160.5
Equity attributable to minority shareholders	–	–	–	–
Total Group Equity	242.9	160.5	–	160.5

A Share of profit of associates

This is the reversal of amortisation of goodwill relating to investments in associates.

B Distribution expense

	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Previously reported NZ GAAP	(52.0)	(3.6)
Expensing of costs previously capitalised	(1.0)	–
Reversal of goodwill amortised	1.3	–
Restated NZ IFRS	(51.7)	(3.6)

Costs previously capitalised relating to in-store merchandising have been reclassified from fixed assets and written off.

C Administration expense

	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Previously reported NZ GAAP	(14.6)	(2.5)
Reversal of amortisation expense	0.7	–
Restated NZ IFRS	(13.9)	(2.5)

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

9 EXPLANATION OF TRANSITION TO NZ IFRS *continued*

D Financial expense

	Notes	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Previously reported NZ GAAP		(5.3)	(1.6)
Reversal of capitalised bank fees ⁽¹⁾	I	(0.6)	(0.6)
Amortisation of fair value discount ⁽²⁾		(1.9)	–
Restated NZ IFRS		(7.8)	(2.2)

(1) Relates to the expensing of bank fees associated with the acquisition of Tenon which had previously been capitalised.

(2) Relates to the amortisation of the deferred settlement liability and represents the reversal of the discounting.

E Minority interest

	Notes	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Previously reported NZ GAAP		10.3	1.0
Expensing of distribution expenses previously capitalised	B	(0.4)	–
Reversal of goodwill previously amortised	B	0.2	–
Reversal of administration expenses previously amortised	C	0.3	–
Reversal of Empire minority earnings		(3.0)	–
Difference between Empire deferred settlement and amortisation of fair value discount		0.6	–
Restated NZ IFRS		8.0	1.0

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

F Creditors

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 GAAP, this provision was recognised when the employees' long service leave days vested.

G Fixed assets

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

H Investments

This is the reversal of amortisation of goodwill relating to investments in associates.

9 EXPLANATION OF TRANSITION TO NZ IFRS *continued*

I Goodwill

	Notes	Jun 05 US\$m	Sep 04 US\$m
Previously reported NZ GAAP		22.1	25.8
Empire deferred settlement ⁽¹⁾		23.0	18.8
Write-back of goodwill amortisation	B	1.3	–
Reversal of capitalised bank fees	D	(0.6)	(0.6)
Additional goodwill as a result of IFRS adjustments ⁽²⁾		1.0	1.0
Restated NZ IFRS		46.8	45.0

- (1) The recognition of a deferred settlement liability in relation to a put option held by the minority shareholders in 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 US\$18.8 million to US\$23.0 million at June 2005 represents the increase in the fair value of the discounted liability.
- (2) IFRS adjustments made in Tenon's 30 June 2004 balance sheet, resulted in additional goodwill being recognised in Rubicon's balance sheet, relating to Rubicon's investment in Tenon.

J Deferred Settlement

	Jun 05 US\$m	Sep 04 US\$m
Previously reported NZ GAAP	(1.4)	–
Reversal of Empire minority interest on recognition of deferred settlement liability	(28.9)	(22.8)
Restated NZ IFRS	(30.3)	(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, Empire. 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 Tenon 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 financial expenses. The liability has been discounted at 8% per annum. The recognition of the deferred settlement liability requires reclassification of minority interests in earnings and equity.

K Total Group Equity

	Jun 05 US\$m	Sep 04 US\$m
Previously reported NZ GAAP	231.3	334.0
Reversal of Empire minority interest on recognition of deferred settlement liability	(4.0)	(4.0)
Write-back of goodwill amortisation	2.5	0.5
Reversal of capitalised bank fees	(0.6)	(0.6)
Reduction in Total Group Equity as a result of other IFRS adjustments	(3.2)	(1.0)
Restated NZ IFRS	226.0	328.9

10 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 US dollar and NZ 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 exchange 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 counterparty. 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 interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances, and through the Tenon group's term debt, cash balances and its share of associates' net debt. 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.

This risk is managed by entering appropriate fixed and floating interest rate arrangements within an established ratio, swapping floating rate exposure to fixed rate.

11 SEGMENTAL INFORMATION SUMMARY

The Group is represented by two segments: Appearance Consumer Solutions and Biotechnology & other.

	6 months Dec 05 US\$m	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Segmental revenue:			
Appearance	167.4	296.0	42.5
Biotechnology & other	–	–	–
	167.4	296.0	42.5
Segmental earnings:⁽¹⁾			
Appearance	2.8	22.1	3.9
Biotechnology & other	(2.7)	(8.2)	(3.4)
	0.1	13.9	0.5

(1) Segmental earnings is represented by operating profit before financing costs.

12 DISCONTINUED OPERATIONS

The following information details balance sheet and cash flows of 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	Dec 05 US\$m	Jun 05 US\$m	Sep 04 US\$m
Assets			
Debtors	–	–	2.0
Forest crop ⁽¹⁾	1.3	5.0	70.9
Total current assets	1.3	5.0	72.9
Fixed assets	–	–	16.1
Total discontinued assets	1.3	5.0	89.0
Liabilities			
Creditors	(3.0)	(8.4)	(11.4)
Total discontinued liabilities	(3.0)	(8.4)	(11.4)

(1) As at 31 December 2005, a balance of \$1.3 million remains as forests available for sale.

Statement of Cash Flow for period ended	6 months Dec 05 US\$m	15 months Jun 05 US\$m	6 months Sep 04 US\$m
Net cash from operating activities	–	3.4	–
Net cash from/(used in) investing activities	(1.0)	275.9	114.3
Net Cash from/(used in) discontinued operations	(1.0)	279.3	114.3

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 consolidated interim financial report.

14 ACQUISITION OF SUBSIDIARIES/BUSINESSES

	Dec 05 US\$m	Jun 05 US\$m	Sep 04 US\$m
Cash and liquid deposits	–	1.3	1.3
Inventory	13.0	34.5	53.8
Debtors	5.5	26.8	49.3
Current assets – discontinued operations	–	243.8	198.3
Total current assets	18.5	306.4	302.7
Creditors	(4.4)	(24.6)	(45.7)
Current taxation liability	–	(3.2)	(3.2)
Current liabilities – discontinued operations	–	(34.5)	(10.8)
Total current liabilities	(4.4)	(62.3)	(59.7)
Fixed assets	6.8	28.3	72.6
Investments	–	21.1	21.2
Goodwill	–	18.8	18.8
Deferred taxation	–	3.8	14.1
Term assets – discontinued operations	–	62.0	–
Total non current assets	6.8	134.0	126.7
Term debt	(5.3)	(43.4)	(43.4)
Total term liabilities	(5.3)	(43.4)	(43.4)
Net assets	15.6	334.7	326.3
Minority interest arising from acquisition of Tenon	–	(163.1)	(160.5)
Investment in Tenon prior to acquisition	–	(62.6)	(62.6)
Net assets acquired	15.6	109.0	103.2
Cost of acquisition of subsidiaries	16.6	109.9	106.5
Deferred settlement	18.1	24.2	22.8
Goodwill arising on acquisition	19.1	25.1	26.1

During November 2005, the Tenon 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 \$0.3 million. During April 2005 the Tenon group purchased 100% of Kok's Woodgoods, Inc.

On 3 June 2004 Rubicon acquired an additional 30.013% of Tenon in a partial takeover, taking Rubicon's holding in Tenon to 50.01%.

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Stock Exchange Listing

The Company's shares are listed on
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Shareholder Enquiries

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