Tenon
Wood Solutions to the World




Annual Report 2007

Contents

Note: All references in this Annual Report to $ or "dollars" are references to United States dollars unless otherwise stated.

2007 Highlights

Strategic:

- Complete exit from under-performing American Wood Moulding business
- Acquisition of 100% of Ornamental Mouldings
- Ownership of Southwest increased to 75.5%

Operational:

- Expansion of outdoor programme, with initial Armourwood™ and LIFESPAN™ products
- Establishment of "One-Company" platform
- Integration of Kok's Woodgoods into Ornamental Mouldings

Financial:

- Establishment of new five-year $100 million bank financing facility
- $20 million EBITDA recorded in difficult market conditions
- Revenue up 6.5% to $394 million

The Year in Review

Letter to Shareholders

Dear Shareholders,

2007 was a year of mixed fortunes for Tenon. While we were able to advance all of our strategic initiatives according to plan and report solid earnings in a particularly difficult macro-environment, unfortunately Tenon's share price was adversely affected by a dramatic change in fortunes for the US housing market which negatively impacted market sentiment in our sector.

The 2007 year saw a sharp decline in building activity in the US, a softening of remodelling spend for millwork products, and a strong appreciation in the New Zealand dollar – each of which had negative implications for earnings in the period. Despite this difficult environment, Tenon continued to execute its strategy to grow through selected acquisitions, to develop a platform to extract synergies across the entire Group, to eliminate costs throughout our supply chain, and to expand the breadth of our specialty product offerings.

Highlights included:

- Stable year-on-year EBITDA of $20 million. This result, which was identical to that recorded in the previous financial year but which was achieved in a much more challenging market environment, was in line with market expectations
- A 6.5% increase in operating revenue for the business from $370 million in the prior year to $394 million
- The complete exit from the under-performing 50% investment in American Wood Moulding ("AWM")
- The purchase of 100% of Ornamental Mouldings ("OMI") – a manufacturer and distributor of decorative mouldings
- The expansion of the market for our innovative and proprietary Armourwood™ and LIFESPAN™ primed and treated outdoor finishing products
- The establishment of the One-Company platform to better leverage Tenon's scale in the US market and to extract synergies across the Group's operations
- The successful refinancing of Tenon, which resulted in the establishment of a $100 million, five-year facility to support the Company's current and future operational and strategic needs
- After balance date the step-up from 51% to 75.5% in our ownership of Southwest Moulding ("Southwest"), a manufacturer and distributor to the Pro-Dealer segment in the large Texas market, for approximately $7.8 million.

Stable Earnings and Cashflows

As a direct result of both the strategic and operational enhancements made to the business during the period, Tenon managed to deliver a flat year-on-year EBITDA of $20 million – in an environment of unprecedently unfavourable macro-economic conditions.

Strategically, the inclusion of the positive earnings from OMI and the exclusion of the negative earnings of AWM (as a result of the transactions that took place in November 2006) have confirmed the Company's view of the long-term significance of those two transactions for the business.

Operationally, the Company focused on the execution of sustainable initiatives to maintain its revenue growth in specialty products and to reduce costs across the Group:

- With the inclusion of OMI revenue and the growth in the Company's outdoor product programme, total operating revenue was $394 million – up $24 million on the prior year's $370 million. Excluding OMI, revenue was similar to the previous year.
- Gross profit expanded marginally during the period as a result of the blending of specialty manufacturing margins, the favourable impact of increasing lumber prices, improved recoveries from the New Zealand manufacturing operations, and the US distribution businesses working closely with suppliers to manage volume and costs in line with market conditions.
- Costs savings were achieved by way of:
  - efficiency and rate-savings in shipping and logistics costs in both New Zealand and the US

– improved effective log input prices relative to log-conversions achieved at the Taupo site
– reduced IT management costs.

The benefits of these savings were offset by costs incurred in the period to support our long-term growth strategies. These included the full-year cost of operating additional warehousing facilities in Texas which were opened in the final quarter of the previous year, together with the ongoing investment in operations supporting the Group's objective for sustainable growth in Pro-Dealer markets.

- Early benefits were seen from the One-Company platform, including:
  – specialty manufacturing optimisation in North America, with the integration of Kok's Woodgoods with OMI
  – gains from a strategic procurement review across our distribution businesses
  – Group-wide inventory reduction of $5 million in cash terms (excluding the OMI acquisition and the impact of foreign exchange).

Net cash flow from operations for the year (prior to working capital movements) was $16 million (2006: $12 million). The Company invested $24 million during the period, including the purchase of 50% of OMI for $20 million, with the remaining 50% interest in OMI being acquired in exchange for Tenon's 50% interest in AWM for equivalent value of $20 million.

Tenon's net bank borrowings over the 12 months increased from $52 million at 30 June 2006 (excluding any borrowings at the then 50% owned AWM) to $72 million at 30 June 2007, reflecting the cost of the OMI acquisition.

The above was achieved during a marked slowing in sales of existing homes recorded in the US market across the period under review. As the propensity for consumers to undertake a major remodelling project increases subsequent to the acquisition of a new home, this metric is an important indicator for our business. The inventory on hand of existing homes in the US increased from 6.9 months' sales to 8.8 months' sales at the end of the period. At the same time, new home starts were running at a seasonally adjusted annual rate of 1.47 million, a 19.4% decline on the previous year.

The extent of the slowdown in market conditions experienced during 2007, including in the remodelling segment of the market in which Tenon is focused, had not been anticipated by market participants. In particular, the softness in the Florida and Mid-West markets has been a material drag on the Company's earnings over the past 12 months.

In addition, Tenon's Taupo operations also had to deal with the appreciation of the New Zealand dollar during the period. In particular, the 6 months to 30 June saw the NZD/USD cross rate averaging 72 cents (before subsequently moving even higher to break through 80 cents in the first quarter of FY2008) compared with 65 cents in the prior six-month period. Fortunately, in the last quarter of the financial year the impact of the strong NZD was partially offset by a 30% increase in the US dollar price of Moulding and Better lumber in the US, which is a key pricing index for Tenon's business.

Positioned for Growth

The Company recently completed the refinancing of its Group operations with a banking syndicate in the United States. The new $100 million five-year facility, led by JP Morgan Chase, includes all the banks which previously had banking relationships with the Tenon Group. Having this long-term facility in place provides the Tenon Group with the financial stability and funding flexibility to meet its current and future operational and strategic needs. That this refinancing has been secured on good terms in difficult financial market conditions is reflective of the market positioning of Tenon and the strong relationships with the banks that have supported us for many years.

In August 2007 the Company increased its percentage ownership of Southwest from 51% to 75.5%, further strengthening its manufacturing and distribution activities in the United States market. The purchase price for the 24.5% interest was approximately $7.8 million.

The initial 51% purchase of Southwest was made in 2005, with the purpose of diversifying Tenon's product offering and achieving a more balanced customer mix in North America. The Dallas-based business services the large Texas Pro-Dealer market.

While there was no significant capital investment made in the New Zealand-based processing operations during the year, the introduction of new optimisation technology that would significantly improve the operational efficiency and earnings performance at Taupo is actively being investgated and advanced. This is scheduled for a calendar 2008 implementation, but exact timing will be dependent upon prevailing macro-economic conditions.

It is disappointing that despite the sound strategic moves made in the period to establish a strong platform for Tenon in the future, the current share price continues to reflect the short-term negatives the Company faces – particularly the ongoing strength of the NZ dollar, the extremely difficult trading conditions in the Company's key US market, and, to a lesser degree, the low level of share-liquidity that has resulted from further consolidation of the Company's share register. We fully acknowledge that, in an environment where Tenon is not paying a dividend to its Shareholders, the reduction in share price that has occurred in the period is an unacceptable outcome for our Shareholders. We do not, however, believe this to be a sustained position. We continue to remain confident that as the business initiatives we have put in place begin to flow through to our earnings, as US market conditions begin to improve, and as the NZ dollar eases, our share price will respond positively.

Outlook

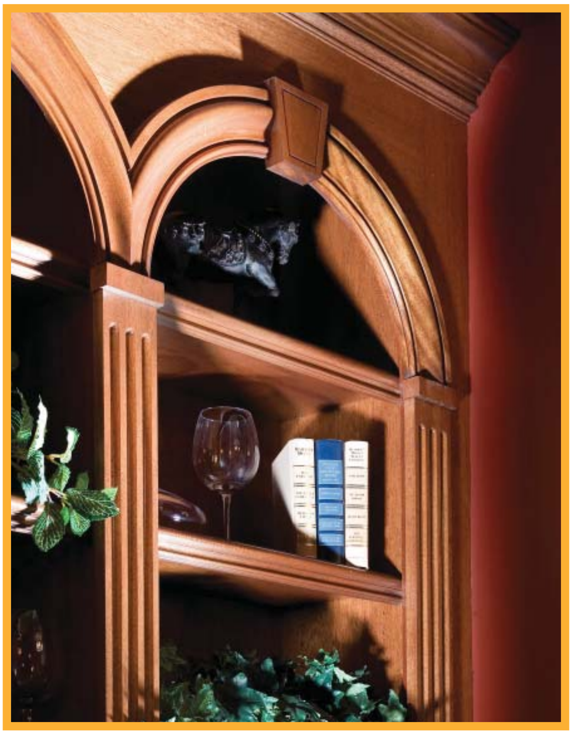
The overall results for the year reflect a cyclical low period in the US market. While the Company and most market commentators had anticipated an improvement later in the year off the low base at the beginning of the year, this did not eventuate. This was due in significant part to the now well-publicised collapse of the "sub-prime" mortgage lending market in the US, which has caused a severe tightening in the availability of home finance and an impairment in consumers' ability to finance further consumer spending. This has impacted upon the new housing and remodelling markets in which Tenon operates, and will continue to do so in the 2008 financial year – albeit, we expect, to a lesser degree. We are, therefore, maintaining a cautious yet improving outlook for 2008.

In this environment the Company will be focused on:

- Building revenue in the outdoor products programme and other new products
- Reducing its levels of inventory and debt
- Ongoing supply chain and procurement optimisation
- Achieving cost-savings across the Group.

We are positioning the business to be able to significantly step up earnings as we return to mid-cycle conditions beyond fiscal year 2008. When we speak of mid-cycle conditions we mean the sustainable mid-points of the key macro-economic indicators that impact our business – for example, existing home inventory, remodelling spend, and the NZD/USD cross rate. We remain confident that we will return to mid-cycle conditions in the future – it is only a question of timing. Supporting our longer-term view of market conditions, the Harvard Joint Housing Study released earlier this year anticipates a healthy 3.8% (inflation adjusted) annual growth in remodelling spend for the next decade.

The macro-economic conditions the Company operated in over the past twelve months were not conducive to a strong earnings performance for industry participants. However, matching the previous year's earnings but in far worse market conditions, and delivering a 5% EBITDA margin at or near the bottom of a very tough US building cycle and the peak of the New Zealand dollar exchange rate, is a creditable performance for Tenon. We are certainly very encouraged by what this means for the business when mid-cycle conditions return.



Strategically, Tenon is very well positioned to benefit from the future cyclical recovery in the US building materials market and the depreciation of the New Zealand currency with:

- Over two thirds of our business being in the remodelling segment, which has historically been far more robust to adverse economic conditions than has the new housing sector
- The great majority, by volume and value, of Tenon's US sales being in specialty millwork products which generally display less pricing volatility
- Best-in-class operations, maintaining leading market shares in the core categories in which we operate
- A unique blend of manufacturing and distribution facilities, which provides key points of leverage in the supply chain and good earnings diversification
- A strong growth profile, with excellent regional and product programmes already in place
- Implemented cost management programmes at both operational and corporate levels.

Looking ahead to the immediate year, 2008 should show further improvement over 2007. And beyond that, we are excited about the opportunities for Tenon as we move into a period of broad industry recovery.

Luke Moriarty
Chairman of Directors

Mark Eglinton
Chief Executive Officer

Our Business

Each operating entity in the Tenon Group has a specific role to play in our business model by offering a unique product and channel focus. By exploiting specific market niches, our Group is able to maximise channel exposure and optimise product mix while our One-Company platform is designed to extract business synergies across the Group. The summary of our business (below) shows we have diverse market channels, a strong remodelling focus and a broad specialty product mix which positions us well for earnings growth as our sector returns to mid-cycle conditions.

OFFSHORE MANUFACTURING, SOURCING AND WHOLESALE DISTRIBUTION

Fletcher Wood Solutions

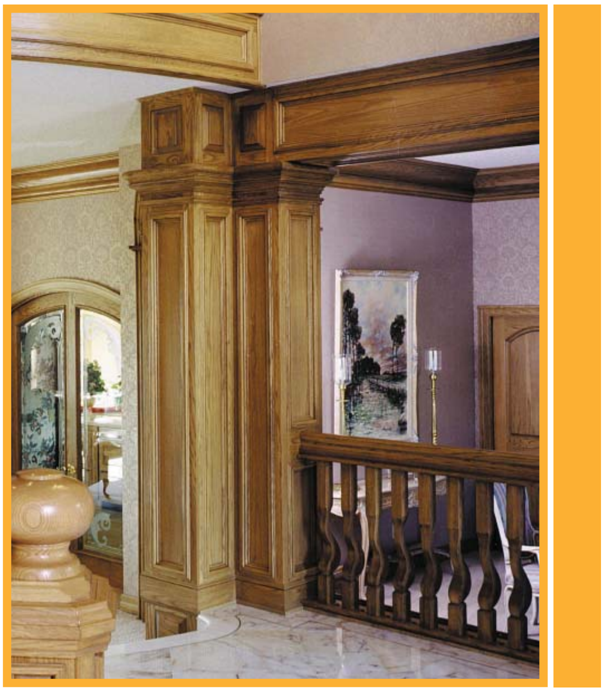
Fletcher Wood Solutions ("FWS"), headquartered in Annapolis, Maryland, operates the largest appearance grade radiata pine manufacturing facility in New Zealand (located in Taupo). FWS maintains direct access to one of the largest FSC certified pine plantation forests in the world, and its manufacturing plant has been certified by the Forest Stewardship Council. In addition to exporting clear grade radiata mouldings, boards and lumber, FWS manufactures a treated, primed exterior range of trim and cladding products marketed under the Armourwood™ and LIFESPAN™ brands.

FWS's procurement activities offer access to a variety of products complementary to the Taupo-manufactured range. FWS's China-based office in Guangzhou matches US customer needs with appropriate high-quality local manufacturers capable of exporting value-added millwork products consistently and reliably. In addition, a network of South American manufacturers enables FWS to offer customers lower cost commodity finger-joint mouldings and primed boards.

FWS delivers products in container load quantities direct from the manufacturer, providing all of the shipping logistics and customs documentation for its customers. Because of its focus on bulk offshore shipments, FWS specialises in marketing to distributors, cooperative buying groups, large remanufacturers, and the major home centres. In addition, FWS is a major supplier of mouldings to The Empire Company and of China-procured hand-carved decorative ornaments to the Ornamental Group.

FULL SERVICE DISTRIBUTION

The Empire Company & Southwest Moulding Company



One of the largest millwork distribution companies in the Unites States, The Empire Company, Inc. ("Empire"), provides the industry's broadest range of products, from commodity mouldings to stair components to high-end decorative trim. These products are sourced from a diverse global supplier base to ensure consistent product availability for customers. Empire's true strength is reflected in supporting this breadth of product offering with an extensive range of value-added services described below which customers are increasingly demanding to enhance performance across the product categories.

Empire's six distribution facilities (Zeeland, Michigan; Allentown, Pennsylvania; Chesapeake, Virginia; Houston, Texas; Ocala, Florida; and Lakeland, Florida)

service lumber yards, Pro-Dealers and Lowe's stores in the eastern half of the US. A fleet of trucks and a team of service representatives manage customer inventory including reordering, delivering, placing product in bays, and optimising in-store stocking levels. Service representatives also provide marketing support through culling damaged materials, setting point-of-purchase merchandising displays, and managing targeted, market-specific SKU offerings. Empire provides this type of product servicing for some of the Ornamental Group's decorative product lines and for Fletcher Wood Solution's Armourwood™ and boards programmes into Lowe's, as well as for third party sourced product.

Southwest Moulding Company ("Southwest") operates a wholesale millwork distribution business (similar to Empire's) on a regional basis out of Dallas, Texas. Southwest's primary channels of distribution are building material dealers, door hangers, and home centres. It is committed to providing its customers with the best service option possible and has optimised its inventory levels and trucking fleet to guarantee customers on-time deliveries.

Southwest also has a manufacturing division, responsible for the production of stair parts and MDF mouldings. Its in-house manufacturing is supplemented with procured moulding and stair products and it has expanded into complementary ranges such as Flex Trim flexible moulding and Turncraft columns and porch posts.

DOMESTIC SPECIALTY MANUFACTURING AND CUSTOMISED DISTRIBUTION

The Ornamental Group

The OMI Group is a market leader in the design and manufacture of decorative hardwood mouldings and accessories. With facilities in Ontario, Canada and Archdale, North Carolina, Ornamental Mouldings manufactures a full range of highly decorative stain grade embossed and dentil mouldings, cornice mouldings, chair rails, baseboards, and door casings. Ornamental Products, with facilities in High Point, North Carolina and Zeeland, Michigan, specialises in manufacturing decorative trim, mantels, ornaments, corbels and cabinetry pullouts. Ornamental Products supplies mouldings, accessories and other components to cabinet and furniture manufacturers as well as the modular housing industry. During the year Ornamental Products installed new carving equipment at their High Point facility enabling them to produce elaborately-carved corbels and columns domestically. This allows for rapid prototyping and product launches, short production runs for custom species or patterns and reduction of high inventories necessary for imported products.

OMI's range is available across several channels throughout the US and Canada, including home centres, lumber yards, and specialty millwork distributors. It has the ability to ship job-lot quantities directly to dealers through its special order Ornamental Express programme.

Financial Statements and Corporate Governance

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 financial statements have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS). In complying with NZ IFRS, these financial statements are also in compliance with the International Financial Reporting Standards. The Group has designated itself as a profit-orientated entity for the purposes of compliance with NZ IFRS.

The accounting policies are consistent with those used in the June 2006 consolidated financial statements. The significant accounting policies as amended under NZ IFRS are set out below and have been applied consistently to all periods presented in these financial statements.

Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993 and comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The reporting currency used in the preparation of these financial statements is United States dollars, rounded to the nearest million.

The accounting principles recognised as appropriate for the measurement and reporting of profit and loss and financial position on a 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 financial statements in conformity with NZ IFRS 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 (refer to note 3).

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

Standards, interpretations and amendments to published standards that are not yet effective. Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2007 or later periods. The Group has identified the following standards as relevant but also believes that adoption will not have a material effect on the Group's accounts:

- NZ IFRS 7, Financial Instruments: Disclosures are mandatory for reporting periods beginning on or after 1 January 2007.
- NZ IFRS 8: Operating Segments, mandatory for reporting periods beginning on or after 1 January 2009.
- Amendments to IAS 23: Borrowing Costs, mandatory for reporting periods beginning on or after 1 January 2009.

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 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 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

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 was calculated by comparing the fair values of assets and liabilities acquired to the purchase price of those assets and liabilities. Goodwill arising upon acquisition was amortised to earnings on a systematic basis and the balance of the goodwill was included in the accounts at its net carrying value at the date of transition to NZ IFRS.

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 at each reporting date.

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 United States dollars, which is the functional currency of the Parent and principal operating subsidiaries. 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. Solely for the convenience of readers the primary statements have been translated from United States dollars to New Zealand dollars for the year ended 30 June 2007 at the year end rate of NZ$1.00 : US$0.7682.

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 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 functional currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to the functional currency at rates approximating 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

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. Net realisable value is

Statement of Accounting Policies continued

the estimated selling price in the ordinary course of business, less applicable variable selling costs.

Trade Receivables

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 inventory 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 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. 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.

Statement of Accounting Policies continued

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. 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.

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 is 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 year's 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 recognised 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 costs. 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

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.

Statement of Accounting Policies continued

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.

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 Government 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 to 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.

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 (GST)

The Income Statement and Statement of Cash Flows have been prepared exclusive of Goods and Services Taxation. All items in the Balance Sheet are stated net of GST, with the exception of trade receivables and trade payables, which include GST invoiced.

Research and Development Costs

All research costs are recognised as an expense when incurred. When a project reaches the stage where it is reasonably certain that further expenditure can be recovered through the processes or products produced, then further expenditure is recognised as a development asset. The asset is amortised from the commencement of commercial production of the product to which it relates, over the period of expected benefit.

Income Statement for year ended 30 June

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Note	2007 NZ$m	Tenon Group 2007 US$m	Tenon Group 2006 US$m
–	**–**	Revenue		513	**394**	370
–	**–**	Cost of Sales	7	-380	**-292**	-278
–	**–**	Gross Profit		133	**102**	92
–	**–**	Dividend Income		–	**–**	2
–	**–**	Earnings from Associates	6	–	**–**	–
–	**–**	Distribution Expense	7	-96	**-74**	-68
–	**–**	Administration Expense	7	-20	**-15**	-11
–	**–**	Operating Profit		17	**13**	15
		Analysed as:				
–	**–**	EBITDA		26	**20**	20
–	**–**	Depreciation	7	-9	**-7**	-5
–	**–**	Operating Profit		17	**13**	15
–	**–**	Impairment Charge – Zenia House Exit Costs		–	**–**	-1
–	**–**	Operating Profit before Financing Costs		17	**13**	14
-11	**-14**	Net Financing Expense	19	-9	**-7**	-3
-11	**-14**	Profit before Taxation		8	**6**	11
–	**–**	Income Tax Expense	8	-1	**-1**	-3
-11	**-14**	Net Profit after Taxation		7	**5**	8

Earnings per Share Information		
Basic Net Earnings per Share (cents)	**7.1**	12.0
Diluted Net Earnings per Share (cents)	**7.1**	11.8
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)	**66.9**	69.3

The accompanying notes form part of and are to be read in conjunction with these financial statements.
The primary financial statements have been translated to New Zealand dollars for information purposes only, refer to note 5.

Statement of Changes in Equity for year ended 30 June

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Note	2007 NZ$m	Tenon Group 2007 US$m	Tenon Group 2006 US$m
		Net Earnings for the year, comprising:				
-11	**-14**	Net Profit after Taxation		7	**5**	8
-11	**-14**			7	**5**	8
		Other Recognised Revenues and Expenses for the year				
18	**22**	Revaluation of Investments		–	**–**	–
–	**–**	Revaluation Reserve on Acquisition	11	1	**1**	–
–	**–**	Movement in Currency Translation Reserve	11	3	**2**	-1
7	**8**	Total Recognised Revenues and Expenses for the year		11	**8**	7
		Movement in Reported Capital				
-6	**-1**	Share Buyback	10	-1	**-1**	-6
1	**7**	Movements in Equity for the year		10	**7**	1
		Total Group Equity at the beginning of the year comprising				
121	**122**	Parent Shareholders' Interest		158	**122**	121
		Total Group Equity at the end of the year comprising				
122	**129**	Parent Shareholders' Interest		168	**129**	122

The accompanying notes form part of and are to be read in conjunction with these financial statements.
The primary financial statements have been translated to New Zealand dollars for information purposes only, refer to note 5.

Balance Sheet as at 30 June

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Note	2007 NZ$m	Tenon Group 2007 US$m	Tenon Group 2006 US$m
		ASSETS				
		Current Assets:				
–	**–**	Cash and Liquid Deposits		4	**3**	3
–	**–**	Inventory	12	92	**71**	68
–	**–**	Trade and Other Receivables	13	69	**53**	40
–	**–**	Current Tax Asset	18	3	**2**	–
–	**–**	Current Assets – Discontinued Operations	31	–	**–**	1
–	**–**	Total Current Assets		168	**129**	112
		Non Current Assets:				
–	**–**	Fixed Assets	14	58	**45**	32
142	**146**	Investments	15	–	**–**	20
–	**–**	Goodwill	16	87	**67**	54
–	**–**	Deferred Taxation Asset	18	9	**7**	6
142	**146**	Total Non Current Assets		154	**119**	112
142	**146**	Total Group Assets		322	**248**	224
		LIABILITIES AND GROUP EQUITY				
		Liabilities				
		Current Liabilities:				
–	**–**	Bank Overdraft		1	**1**	–
1	**1**	Trade and Other Payables	17	35	**27**	23
–	**–**	Provision for Current Taxation	18	–	**–**	1
19	**16**	Current Debt	20	96	**74**	19
–	**–**	Deferred Settlement	22	21	**16**	–
–	**–**	Current Liabilities – Discontinued Operations	31	1	**1**	2
20	**17**	Total Current Liabilities		154	**119**	45
		Non Current Liabilities:				
–	**–**	Non Current Debt	20	–	**–**	36
–	**–**	Provisions	21	–	**–**	1
–	**–**	Deferred Settlement	22	–	**–**	20
–	**–**	Total Non Current Liabilities		–	**–**	57
20	**17**	Total Group Liabilities		154	**119**	102
		Group Equity				
534	**533**	Capital	10	694	**533**	534
-412	**-404**	Reserves	11	-526	**-404**	-412
122	**129**	Total Group Equity		168	**129**	122
142	**146**	Total Group Liabilities and Equity		322	**248**	224

The accompanying notes form part of and are to be read in conjunction with these financial statements.
The primary financial statements have been translated to New Zealand dollars for information purposes only, refer to note 5.

For and on behalf of the Board
27 August 2007

Chairman of Directors
Luke Moriarty

Director (Chairman of Audit Committee)
Michael Walls

Chief Executive Officer
Mark Eglinton

Chief Financial Officer
Adam White

Statement of Cash Flows for year ended 30 June

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Note	2007 NZ$m	Tenon Group 2007 US$m	Tenon Group 2006 US$m
		Cash was Provided:				
		From Operating Activities				
–	**–**	Receipts from Customers		515	**396**	367
–	**–**	Dividends Received		–	**–**	2
–	**–**	Total Provided		515	**396**	369
–	**–**	Payments to Suppliers, Employees and Other		492	**378**	376
–	**–**	Income Tax Paid		5	**4**	7
–	**–**	Total Applied		497	**382**	383
–	**–**	Net Cash from/(to) Continuing Operating Activities		18	**14**	-14
		To Investing Activities				
–	**–**	Purchase of Fixed Assets	14	5	**4**	5
–	**–**	Purchase of Subsidiary		26	**20**	17
–	**–**	Cash Acquired on Purchase of Subsidiary		-4	**-3**	–
–	**–**	Purchase of Minority Interest		–	**–**	29
–	**–**	Net Cash to Investing Activities		-27	**-21**	-51
		From Financing Activities				
19	**28**	Debt Drawdowns		65	**50**	42
-2	**18**	Advances from/(to) Subsidiaries		–	**–**	–
17	**46**	Total Provided		65	**50**	42
–	**31**	Debt Settlements		48	**37**	–
11	**14**	Interest Paid		7	**5**	1
6	**1**	Share Buyback	10	1	**1**	6
17	**46**	Total Applied		56	**43**	7
–	**–**	Net Cash from Financing Activities		9	**7**	35
–	**–**	Net Cash to Discontinued Operations	31	-1	**-1**	-2
–	**–**	Net Movement in Cash Held		-1	**-1**	-32
–	**–**	Add Opening Cash and Liquid Deposits		4	**3**	36
–	**–**	Effect of Exchange Rate Changes on Net Cash		–	**–**	-1
–	**–**	Closing Cash, Liquid Deposits and Overdrafts		3	**2**	3

The accompanying notes form part of and are to be read in conjunction with these financial statements.
The primary financial statements have been translated to New Zealand dollars for information purposes only, refer to note 5.

Reconciliation of Consolidated Net Earnings to Consolidated Net Cash from Operating Activities for year ended 30 June

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		Cash was Provided from:		
-11	**-14**	Net Earnings	**5**	8
11	**14**	Add Net Financing Expense	**7**	3
		Adjustments for Items not involving Cash:		
–	**–**	Depreciation	**7**	5
–	**–**	Taxation	**-3**	-4
–	**–**	Cash Flow from Operations before Net Working Capital Movements	**16**	12
–	**–**	Net Working Capital Movements	**-2**	-26
–	**–**	Net Cash from/(to) Continuing Operating Activities[1]	**14**	-14
		Net Working Capital Movements:		
–	**–**	Trade and Other Receivables	**-1**	-2
–	**–**	Inventory	**5**	-14
–	**–**	Trade and Other Payables	**-6**	-10
–	**–**		**-2**	-26

(1) As per Statement of Cash Flows

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

Analysis of Purchase of Subsidiary for year ended 30 June

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
–	–	Cash Outflow on Purchase of Subsidiary[1]	**20**	17
–	–	Investment in AWM	**20**	–
–	–	Revaluation Reserve on Acquisition[2]	**1**	–
–	–	Fair Value of Deferred Consideration	–	18
–	–		**41**	35

			Pre-acquisition Carrying Amounts US$m	Fair Value Adjustments US$m	Recognised Values on Acquisition US$m 2007	Recognised Values on Acquisition US$m 2006
–	–	Cash	3	–	**3**	–
–	–	Inventory	7	-2	**5**	13
–	–	Trade and Other Receivables	10	–	**10**	6
–	–	Fixed Assets	11	5	**16**	4
–	–	Goodwill on Acquisition[1]	18	–	**18**	22
–	–	Trade and Other Payables	-6	–	**-6**	-5
–	–	Term Debt	-5	–	**-5**	-5
–	–		38	3	**41**	35

(1) Until November 2006, Tenon owned 50% of AWM. AWM owned 50% of the Ornamental Mouldings ("OMI") group of companies. On 3 November, Tenon announced that it had sold its 50% interest in AWM in return for the transfer of ownership of 50% of OMI to Tenon. Tenon simultaneously acquired the remaining 50% interest in OMI for $18.75 million. The OMI group contributed $5.8 million to Profit before Taxation of the Group (before allocation of interest costs and corporate overheads), inclusive of $0.7 million taken to earnings arising from the partial resolution of a liability at acquisition. If the acquisition had occurred on 1 July 2006, management estimates that the gross revenue contribution (before intercompany eliminations) would have been $50.8 million ($34.6 million for the eight months of ownership) and the contribution to Profit before Taxation of the Group (before allocation of interest costs and corporate overheads) would have been $7.6 million (i.e. an additional $1.8 million to the $5.8 million included in the Group's result).

The fair value of the property, plant and equipment acquired was valued by independent valuers based on a fair market value-in-use basis. Inventory at acquisition was based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort to complete and sell the inventory adjusted for inventory sold to Empire that had not yet been realised external to the Group. The fair value of trade and other receivables acquired was based on the present value of future cash flows, discounted at the market value of interest at the reporting date. The fair value of trade and other payables was determined as the present value of the amounts required to settle the liabilities. Term Debt acquired was secured over the properties acquired and the fair value of the Term Debt was determined based on current market values of that debt. The goodwill of $18 million is attributable to the level of profitability of OMI and the synergies expected to accrue across the wider Tenon Group from its acquisition.

(2) As the Group had previously held an indirect 25% shareholding in OMI, through its investment in AWM, the acquisition of OMI is treated as a two step acquisition for accounting purposes and accordingly, under NZ IFRS 3, Tenon's share of the reserves of OMI when it was an associate is recognised as a revaluation reserve on consolidation.

During November 2005, the Group purchased a 51% share of Southwest Moulding Co.

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

Notes to the Financial Statements

1. GENERAL INFORMATION

Tenon Limited (the Company) and its subsidiaries (together the Group) is a wood products processing, marketing and distribution business. The Group focuses on the North American market. The Group has strong supplier relationships for finished mouldings and boards with the independent Pro-Dealer segment and has channels into two of the largest home improvement chains in the United States: Lowe's and The Home Depot. 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 wholly owned distribution businesses, The Empire Company, Inc and the Ornamental Mouldings group of companies 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 7 Fanshawe Street, Auckland, New Zealand.

The Company is listed on the New Zealand stock exchange. As at 30 June 2007 the Group was 57.37% owned by Rubicon Limited and its subsidiaries (June 2006 57.10%).

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 27 August 2007.

2. CHANGES IN ACCOUNTING POLICY

There have been no changes in accounting policies during the year.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with NZ IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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 principal areas of judgement in preparing these financial statements are:

Valuation of goodwill and investments (note 16)

The carrying value of goodwill and investments are assessed at least annually to ensure they are not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by the investment, which entails making judgements about the expected future performance and cash flows of the investment and the appropriate discount rate to apply when valuing future cash flows.

Deferred taxation (note 18)

NZ IFRS allows the recognition of taxation assets when utilisation is considered probable, this requires an estimation of the future earnings of the Tenon Group. These calculations are based upon annual financial budgets and average exchange rate assumptions.

Deferred settlement (note 22)

The fair value of the deferred liability is determined by discounting future cash flows at the appropriate discount rate. Assessment of the future cash flows is assessed at least annually and requires management to estimate the future performance of the investment and determine the appropriate discount rate to apply to those cash flows.

4. 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. The Board may waive or modify the application of such policies in certain circumstances.

(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.

Notes to the Financial Statements continued

4. FINANCIAL RISK MANAGEMENT continued

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 markets, 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 operates in a competitive environment and takes all commercial actions necessary to minimise the risk of increasing prices including operating procurement programmes to ensure raw materials are sourced on a competitive basis and the fostering of relationships with customers that allow the re-negotiation of selling prices in response to price increases as appropriate.

(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 trade debtors. 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.

(c) Liquidity risk

Prudent liquidity risk management requires maintaining sufficient cash which combined with the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions ensures that the Group has sufficient liquidity to manage its day to day operations. Due to the dynamic nature of the underlying businesses, the Group Treasury policy aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Fair value interest rate risk

The Group's interest rate risk is relatively independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to 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 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.

5. FUNCTIONAL CURRENCY

The United States dollar is both the functional and reporting currency of the Tenon Group. The majority of the Group's revenues and cash flows are generated in United States dollars.

New Zealand dollar supplementary information

The consolidated financial statements are expressed in United States dollars, the amounts pertaining to the most recent financial period are translated to New Zealand dollars, the latter being supplemental information presented solely for convenience and converted from United States dollars, as a matter of arithmetical computation only, at the closing rate on 30 June 2007 of NZ$1.00 : US$0.7682.

6. EARNINGS FROM ASSOCIATES

On 3 November 2006, the Group announced that it had exited its 50% investment in American Wood Moulding ("AWM") and acquired 100% of the Ornamental Mouldings group of companies ("OMI") (refer Analysis of Purchase of Subsidiary disclosure). Tenon's 50% share of AWM's loss of $1.2 million ($0.6 million Tenon's share) for the period up to the date of sale is included in Earnings from Associates.

The Group sold its 50% investment in American Moulding S. de R.L de C.V. ("AWM Mexico") to Manhattan Holdings, LLC for a promissory note (receivable in May 2009) of $475,000. The gain on sale of AWM Mexico, $0.6 million, has been included in Earnings from Associates.

Accordingly, the AWM group's net contribution to Tenon's earnings in the period was nil.

Notes to the Financial Statements continued

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		7. OPERATING EARNINGS		
		Operating Earnings from Continuing Operations includes:		
		Depreciation – Plant, Equipment and Buildings		
–	**–**	Cost of Sales Expense	**6**	4
–	**–**	Selling and Distribution Expense	**1**	1
–	**–**		**7**	5
–	**–**	Net Foreign Exchange Gain/(Loss)	**1**	–
–	**–**	Employee Benefit Costs	**61**	43

Other items in Operating Earnings from Continuing Operations were:

(1) Directors' fees payable were $268,000 for the current year (June 2006: $259,000).

(2) Payments made and accrued to PricewaterhouseCoopers were:
Statutory Audit $413,000 for the current year (June 2006: $242,000)
Taxation Services $12,000 for the current year (June 2006: $55,000)
Additional audit related work $140,000 for the current year (June 2006: $99,000)

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		8. TAXATION		
		Current Taxation:		
–	**–**	United States	**1**	5
–	**–**	Total Current Taxation	**1**	5
		Deferred Taxation:		
–	**–**	New Zealand – Recognition of Net Losses	**–**	-2
–	**–**	Total Deferred Taxation	**–**	-2
–	**–**	Taxation Expense	**1**	3
		Profit before Taxation		
-11	**-14**	New Zealand	**2**	–
–	**–**	United States	**4**	11
-11	**-14**		**6**	11
-4	**-5**	Taxation at 33 cents per dollar	**2**	4
		Adjusted for:		
–	**–**	Expenses/(Income) not included in Assessable Income	**-1**	–
–	**–**	Recognition of Net Losses	**–**	-2
4	**5**	Valuation Allowance	**–**	–
–	**–**	Rates other than 33 cents	**–**	1
–	**–**	Taxation Expense	**1**	3

Imputation Credit Account and Dividend Withholding Payment Account

The Imputation Credit Account and the Dividend Withholding Payment Account for the Group and Tenon Limited as at 30 June 2007 were nil (June 2006: nil).

Notes to the Financial Statements continued

	Tenon Group 2007	2006
9. NET EARNINGS PER SHARE		
Basic Net Earnings per Share (cents)		
Continuing Operations	**7.1**	12.0
Diluted Net Earnings per Share (cents)		
Continuing Operations	**7.1**	11.8
Numerator for Basic and Diluted Net Earnings per Tenon Share ($ millions)		
Continuing Operations	**5**	8
Denominator for Basic and Diluted Net Earnings per Tenon Share (millions)	**66.9**	69.3

The diluted Net Earnings per Share has been calculated by assuming that the amount outstanding under the long term incentive scheme is settled in cash during the year with the Net Profit adjusted accordingly (refer note 27).

	Tenon Group 2007 US$m	2006 US$m
10. CAPITAL		
Capital		
Reported Capital:		
Reported Capital at the beginning of the year	**534**	540
Share Buyback(1)	**-1**	-6
Reported Capital	**533**	534

		Tenon Group 2007	2006
Tenon Ordinary Shares – fully paid			
Number of Shares at the beginning of the year		**67,205,177**	69,697,637
Share Buyback(1)		**-354,516**	-2,492,460
		66,850,661	67,205,177
	NZ$	US$	US$
Net Assets per Share	2.51	**1.93**	1.82
Net Tangible Assets per Share	1.07	**0.82**	0.92

(1) On 7 March 2006 Tenon announced 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. To date, the Company has acquired 2,846,976 shares, representing 4.1% of the issued shares of the Company.

Shares held by the Tenon Employee Share Purchase Scheme accounted for under the Treasury Stock method include 198,360 (June 2006: 198,360) fully paid Tenon Limited Ordinary Shares.

Notes to the Financial Statements continued

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		11. RESERVES		
		Retained Earnings:		
-419	**-412**	Opening Balance	**-416**	-424
-11	**-14**	Net Profit after Taxation	**5**	8
18	**22**	Revaluation of Investment in Subsidiaries	**–**	–
-412	**-404**		**-411**	-416
		Revaluation Reserves:		
–	**–**	Opening Balance	**–**	–
–	**–**	Revaluation Reserve on Acquisition(1)	**1**	–
–	**–**		**1**	–
		Net Currency Translation:		
–	**–**	Opening Balance	**4**	5
–	**–**	Net Variations on Translation of Foreign Currency Financial Statements	**2**	-1
–	**–**		**6**	4
-412	**-404**	**Total Reserves**	**-404**	-412

(1) On 3 November, the Group announced that it had exited its 50% investment in American Wood Moulding ("AWM") and acquired 100% of the Ornamental Mouldings Group of companies ("OMI"). As the Group had previously held an indirect 25% shareholding in OMI, through its investment in AWM, the acquisition of OMI is treated as a two step acquisition for accounting purposes and accordingly, under NZ IFRS 3, Tenon's share of the reserves of OMI when it was an associate is recognised as a revaluation reserve on consolidation.

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		12. INVENTORY		
–	**–**	Raw Materials and Work in Progress	**5**	–
–	**–**	Finished Goods	**66**	68
–	**–**		**71**	68

The cost of inventory recognised as an expense and included in cost of sales amounted to $241 million (June 2006: $222 million).

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		13. TRADE AND OTHER RECEIVABLES		
–	**–**	Trade Debtors(1)	**46**	36
–	**–**	Prepayments	**2**	2
–	**–**	Other Receivables	**5**	2
–	**–**		**53**	40

(1) The Group has a significant concentration of credit risk as sales are principally to several mainly US based customers. These major customers account for 56% of trade debtors at balance date. There are no other concentrations of credit risk. As at 30 June 2007, the Provision for Doubtful Debts was $0.4 million (June 2006: $0.3 million).

During the June 2006 year the Group had a write down of related party debtors of $0.4 million relating to the impairment of debtors held by Zenia House.

Notes to the Financial Statements continued

	Tenon Group 2007 US$m	Tenon Group 2006 US$m
14. FIXED ASSETS		
Cost:		
Land and Improvements	**5**	3
Buildings	**19**	10
Plant and Equipment	**75**	66
Total Cost	**99**	79
Accumulated Depreciation:		
Buildings	**-4**	-3
Plant and Equipment	**-50**	-44
Total Accumulated Depreciation	**-54**	-47
Total Fixed Assets at Net Book Value	**45**	32
Domicile of Fixed Assets:		
New Zealand	**21**	24
United States	**24**	8
Total Fixed Assets at Net Book Value	**45**	32

	Land & Improvements US$m	Buildings US$m	Plant & Equipment US$m	Total US$m
Net Book Value 1 July 2005	3	7	18	28
Additions	–	–	5	5
Acquisitions	–	–	4	4
Depreciation Charge	–	–	-5	-5
Net Book Value 30 June 2006	3	7	22	32
Additions	–	–	4	4
Acquisitions	2	9	5	16
Depreciation Charge	–	-1	-6	-7
Net Book Value 30 June 2007	5	15	25	45

Notes to the Financial Statements continued

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Note	Tenon Group 2007 US$m	Tenon Group 2006 US$m
		15. INVESTMENTS			
–	**–**	Investment in Associates[1]		**–**	20
142	**146**	Net Investment in Subsidiary Companies (refer to notes 25 and 29)		**–**	–
142	**146**			**–**	20
		(1) Carrying Value of Associates			
–	**–**	Balance at the beginning of the year		**20**	20
–	**–**	Associates acquired during the year	6	**-19**	–
–	**–**	Earnings of Associates before Dividends	6	**-1**	2
–	**–**	Dividends paid by Associates		**–**	-2
–	**–**	Balance at the end of the year		**–**	20
		Combined Associates' Balance Sheet			
–	**–**	Current Assets		**–**	72
–	**–**	Non Current Assets		**–**	26
–	**–**	Total Assets		**–**	98
–	**–**	Current Liabilities		**–**	-13
–	**–**	Non Current Liabilities		**–**	-45
–	**–**	Total Liabilities		**–**	-58
–	**–**	Net Assets		**–**	40
–	**–**	Interests held by Third Parties		**–**	-20
–	**–**	Investment in Associates		**–**	20
		Combined Associates' Income Statement			
–	**–**	Operating Revenue		**64**	104
–	**–**	Operating Expenses		**-65**	-102
–	**–**	Net Earnings		**-1**	2
–	**–**	Dividends paid by Associates		**–**	-2
–	**–**	Equity Earnings		**-1**	–

Notes to the Financial Statements continued

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		16. GOODWILL		
–	**–**	Goodwill at beginning of the year	**54**	32
–	**–**	Goodwill arising on acquisition of subsidiary (refer to Analysis of Purchase of Subsidiary page 24)	**18**	22
–	**–**	Change in Fair Value (refer to note 22)	**-5**	–
–	**–**	Balance at end of year	**67**	54
		Goodwill is allocated to the Group's cash-generating units (CGUs) as determined at acquisition		
–	**–**	The Empire Company	**31**	32
–	**–**	Southwest Moulding Co	**18**	22
–	**–**	Ornamental Mouldings Co	**18**	–
–	**–**		**67**	54

Tenon has allocated goodwill to three cash-generating units, being Tenon's 100% ownership interest in The Empire Company (including Kok's Woodgoods, Inc), 100% ownership interest in Ornamental Mouldings and its 51% ownership interest in Southwest Moulding Co, all businesses operating within Tenon's primary business segment being the North American geographic market.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on annual financial budgets extrapolated over a five year period, plus an estimate of terminal value discounted over five years.

Key assumptions used in the value-in-use calculations for each CGU are as follows:

(1) Sales growth rates over the next five years are assumed for the purpose of the cash flow projections to not exceed 5%, consistent with assuming long term year on year growth in the US remodelling market, together with continued expansion from new stores and growth in market share from new products.

(2) Gross margin percentages are assumed to be maintained at the current year's percentage and remain constant for the next five years.

(3) The discount rate applied to the cash flow projections was the pretax equivalent of 8% after tax.

As the value in use significantly exceeded the carrying value plus allocated goodwill of the CGUs, no impairment existed at 30 June 2007.

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		17. TRADE AND OTHER PAYABLES		
–	**–**	Trade Creditors	**14**	15
–	**–**	Accrued Employee Benefits	**5**	2
1	**1**	Other Payables	**3**	1
–	**–**	Accruals	**5**	5
1	**1**		**27**	23

Notes to the Financial Statements continued

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		18. PROVISION FOR CURRENT TAXATION AND DEFERRED TAXATION		
		Provision for Current Taxation:		
–	**–**	Opening Provision for Current Taxation	**-1**	-3
–	**–**	Current Taxation in the Income Statement	**-1**	-5
–	**–**	Net Tax Payments	**4**	7
–	**–**	Provision for Current Taxation Asset/(Liability)	**2**	-1
		Deferred Taxation:		
		Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:		
		Deferred Taxation:		
–	**–**	Deferred Tax Assets	**7**	6
–	**–**	Deferred Tax Liabilities	**–**	–
–	**–**	Net Deferred Tax Assets	**7**	6
		The gross movement on the deferred income tax account is as follows:		
		Non Current Deferred Taxation:		
–	**–**	Opening Deferred Taxation	**6**	5
–	**–**	Effect of Currency Translation	**1**	-1
		Deferred Taxation in the Income Statement:		
–	**–**	Continuing Operations	**–**	2
–	**–**	Deferred Taxation	**7**	6

	Depreciation US$m	Forestry Rights US$m	Provisions US$m	Tax Losses US$m	Deferred Taxation Assets Not Recognised US$m	Total US$m
June 2006						
Opening Provision for Deferred Taxation	5	-1	3	1	-3	5
Effect of Currency Translation	-1	–	-1	–	1	-1
Deferred Taxation in the Income Statement:						
Continuing Operations	-3	–	1	2	2	2
Discontinued Operations	–	1	-1	–	–	–
	1	–	2	3	–	6
June 2007						
Opening Provision for Deferred Taxation	1	–	2	3	–	6
Effect of Currency Translation	–	–	–	1	–	1
Deferred Taxation in the Income Statement:						
Continuing Operations	1	–	-1	–	–	–
	2	–	1	4	–	7

Tenon has taxation losses in excess of the amount that can be recognised under NZ IFRS. NZ IFRS allows the recognition of taxation assets when utilisation is considered probable, which is subject to the future earnings of the Tenon Group. Tenon has $46 million in unrecognised tax losses (June 2006: $40 million).

Notes to the Financial Statements continued

Tenon Limited 2006 US$m	Tenon Limited 2007 US$m		Tenon Group 2007 US$m	Tenon Group 2006 US$m
		19. FINANCIAL COSTS AND DEBT		
		Finance Costs		
–	**2**	Interest Payable on Debt	**5**	1
11	**12**	Interest Payable on Intercompany Advances	**–**	–
–	**–**	Amortisation of Fair Value – Deferred Settlement	**2**	2
11	**14**	Net Financing Expense	**7**	3
		Non Current Debt		
–	**–**	Loans with Floating Interest Rates	**–**	36
		Current Debt		
19	**16**	Loans with Floating Interest Rates(1)	**74**	19
19	**16**	Total Debt(2)	**74**	55
		Summary of Repayment Terms		
		Due for Repayment:		
19	**16**	Less than one year	**74**	55
		Non Current Debt		
		Summary of Interest Rates by Repayment Period (%)		
		Due for Repayment:		
–	**–**	Less than one year	**–**	5.70
		Current Debt		
		Summary of Interest Rates by Repayment Period (%)		
		Due for Repayment:		
5.33	**6.07**	Less than one year(1)	**6.09**	5.33
5.33	**6.07**	**Weighted Average Interest Rate**	**6.09**	5.56

(1) On 5 July 2007, Tenon completely refinanced its existing bank facilities which were due to expire in August 2007. The new bank credit facility is for an amount of US$100 million secured for a term of five years and is provided by a consortium of banks led by JP Morgan Chase Bank, N.A. The new facility is structured as a global facility supporting the operations of the Tenon Group as a whole, and replaces the previous separated bank facilities existing within the Group that were due to expire early in the following fiscal year. Accordingly, the debt which is shown in the analysis above as being "current" as at balance date would be classified as "non current" debt under the new facility agreement.

(2) All Non Current and Current Debt is denominated in United States dollars as at 30 June 2007 and 30 June 2006.

Notes to the Financial Statements continued

20. FINANCIAL INSTRUMENTS

1. Group Policies

Currency Balance Sheet Risk

It is the Group's policy 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.

Currency Trade Risk

It is Group policy that exchange risk on trade transactions should be managed within hedging policy defined limits. When exposures are incurred by operations in currencies other than their functional currency, they are managed through the use of derivative financial instruments.

Interest Rate Risk

It is Group policy 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's Treasury policy specifically prohibits the use of derivative financial instruments for trading or speculative purposes.

Notes to the Financial Statements continued

20. FINANCIAL INSTRUMENTS continued

2. Balance Sheet Risk

Derivative financial instruments are used as a means of managing the Group's exposure to fluctuations in foreign currency exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

Contractual repricing dates of financial instruments, at fair market value as at 30 June 2007, are shown in the table below:

	Tenon Group							
	June 2007				June 2006			
	Effective interest rate	6 months or less US$m	6-12 months US$m	1-2 years US$m	Effective interest rate	6 months or less US$m	6-12 months US$m	1-2 years US$m
Cash and Liquid Deposits[1]								
Denominated in United States dollars	–	3	–	–	–	3	–	–
Total Cash and Liquid Deposits	–	3	–	–	–	3	–	–
Trade Debtors								
Denominated in New Zealand dollars	–	2	–	–	–	2	–	–
Denominated in Canadian dollars	–	1	–	–	–	–	–	–
Denominated in United States dollars	–	43	–	–	–	34	–	–
Total Trade Debtors	–	46	–	–	–	36	–	–
Bank Overdraft								
Denominated in New Zealand dollars	–	1	–	–	–	–	–	–
Total Bank Overdraft	–	1	–	–	–	–	–	–
Trade Creditors								
Denominated in New Zealand dollars	–	6	–	–	–	6	–	–
Denominated in United States dollars	–	8	–	–	–	9	–	–
Total Trade Creditors	–	14	–	–	–	15	–	–
Deferred Settlement								
Denominated in United States dollars	8.00%	16	–	–	8.00%	–	–	20
Total Deferred Settlements	–	16	–	–	–	–	–	20
Non Current Debt								
Denominated in United States dollars[2]	–	–	–	–	5.70%	36	–	–
Total Non Current Debt	–	–	–	–	–	36	–	–
Current Debt								
Denominated in United States dollars[2]	6.09%	74	–	–	5.33%	–	19	–
Total Current Debt	–	74	–	–	–	–	19	–

(1) Interest received on Cash and Liquid Deposits for June 2007 was nil (June 2006: $0.4 million).

(2) On 5 July 2007, existing bank facilities, which were due to expire in August 2007, were refinanced. The new bank credit facility is for an amount of US$100 million secured for a term of five years and is provided by a consortium of banks led by JP Morgan Chase Bank, N.A. As a result of the refinancing, debt shown as "current" as at balance date would be classified as "non current" under the new facility arrangement.

There were no Interest Rate Swaps outstanding at 30 June 2007 (June 2006: $10 million). There were no Forward Exchange rate contracts as at 30 June 2007 (June 2006: $5 million).

Notes to the Financial Statements continued

20. FINANCIAL INSTRUMENTS continued

3. Credit Risk

Counter-party restrictions are set by the Board as part of Treasury Management processes. As at 30 June 2007 and 30 June 2006 there were no significant concentrations of credit risk recorded in the Balance Sheet, apart from that noted in Trade and Other Receivables (note 13).

4. Interest Rate Repricing

The Group's interest rate policy is for a spread of long term fixed and floating rate borrowings. Due to the refinancing activities of the Group, completed in late June 2007, no interest rate fixing instruments were in place at 30 June 2007. The Group intends to implement a minimum risk strategy by entering into interest rate fixing instruments early in the new financial year. The following table sets out the interest rate repricing profile and weighted average interest rate of borrowings and interest rate hedges:

	Tenon Group			
	2007 US$m	2007 %	2006 US$m	2006 %
Interest Rate Repriced:				
(including average interest rate)				
within one year	74	6.09	55	5.56

Debtors and creditors are not interest rate sensitive.

5. Fair Values

The estimated fair values of the Group's financial assets and liabilities do not differ materially from the carrying values.

None of the financial instruments held by the Group at balance date meet the accounting definition of an effective hedge and the fair values have been recognised in earnings in the current year.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Forward Exchange Contracts, Foreign Exchange Options and Interest Rate Swaps
The fair value of the Group interest rate swaps are estimated based on the quoted or estimated market prices.

Investments
It is not practical to estimate fair values of unlisted investments in subsidiaries and associates as there are no quoted market prices for those or similar investments. Unlisted investments are carried at the lower of net asset backing or historical cost (refer to note 15).

Cash, Liquid Deposits and Bank Overdrafts
The carrying amount of cash, liquid deposits and bank overdrafts is equivalent to the fair value.

Notes to the Financial Statements continued

21. PROVISIONS

The environmental provision represents the Group's obligation to ensure environmental compliance at various sites. During the 2007 year $58,000 (June 2006: $62,000) was spent on compliance at various sites.

During the year, the Group entered into an agreement whereby a third party purchased one of Tenon's sites that had been previously recognised as an environmental risk. With the transfer of ownership the Group's responsibility to ensure environmental compliance for the site has been transferred to the purchaser and the provision created for the environmental compliance of the site released ($500,000).

The remaining environmental provision of $78,000 is expected to be utilised in environmental compliance at an average spend of $5,000 per annum.

	Tenon Group	
	2007 US$m	**2006 US$m**
22. DEFERRED SETTLEMENT		
Opening Balance	**20**	30
Finance Costs – Amortisation of Fair Value	**2**	2
Fair Value of Deferred Settlement on Acquisition	**–**	18
Change in Fair Value	**-5**	–
Cash Payments made	**-1**	-1
Purchase of Minority Interest in The Empire Company, Inc	**–**	-29
	16	20

As at 30 June 2007 the fair value of the Southwest Moulding Co and Kok's Woodgoods Inc's deferred liabilities were re-estimated resulting in a $5 million reduction in the estimated value of the deferred liabilities outstanding. As at 30 June 2007, there is a corresponding decrease of $5 million to goodwill (refer note 16).

On the date of 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 on transition to NZ IFRS, after applying discounted cash flow analysis at a rate of 8% after tax, was $22.8 million. In September 2005 the Empire option was exercised for $29.4 million.

In November 2005, the Group purchased 51% of Southwest Moulding Co and entered into an option that allows the minority shareholders to put their remaining equity to Tenon from August 2007 for a period of three years. The estimation of the fair value of the liability on acquisition date, after applying discounted cash flow analysis at a rate of 8% after tax, was $18.1 million.

Notes to the Financial Statements continued

23. COMMITMENTS

Lease Commitments

The expected future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at 30 June are as follows:

	Tenon Group 2007 US$m	Tenon Group 2006 US$m
within one year	**6**	5
two years	**5**	5
three years	**4**	5
four years	**3**	4
five years	**2**	3
after five years	**4**	4
	24	26

Operating lease commitments relate mainly to occupancy leases of buildings and vehicles. There are no renewal options to purchase in respect to any asset held under operating leases. Total lease costs for the year were $7.8 million (June 2006: $5.8 million).

There are no lease commitments for Tenon Limited.

Capital Expenditure Commitments

	Tenon Group 2007 US$m	Tenon Group 2006 US$m
Committed at balance date for expenditure:		
within one year(1)	**–**	–
	–	–

(1) Capital expenditure commitments at 30 June 2007 were $0.4 million (June 2006: $0.1 million).

There are no capital expenditure commitments for Tenon Limited.

24. CONTINGENT LIABILITIES

There are no significant contingent liabilities as at June 2007 (June 2006: nil).

25. RELATED PARTY TRANSACTIONS

Services are negotiated with related parties based upon competitive market rates charged to unaffiliated customers for similar goods.

As at 30 June 2007 Rubicon Limited and its subsidiaries own 57.37% of Tenon Limited (June 2006: 57.10%).

Two of Tenon Limited's directors are also directors of Rubicon Limited. Directors' fees paid to Rubicon were $89,000 (June 2006: $96,000).

	Tenon Group 2007 US$m	Tenon Group 2006 US$m
Tenon Group		
Trading Activities with Related Parties		
Sale of wood products to Associate, American Wood Moulding LLC(1)	**1**	9
Tenon Limited		
Royalties and Management Fees received for services provided to Subsidiaries by Tenon Limited(2)	**–**	–
Finance Charges paid by Tenon Limited on Advances from Subsidiaries(3)	**-12**	-11
Net Term Liabilities/(Assets) from Subsidiary Companies included within Net Investment in Subsidiary Companies(3)	**170**	125

(1) Includes sales to AWM for the period to the date of the sale of AWM (3 November 2006).

(2) Royalties and Management Fees charged $0.3 million (June 2006: $0.2 million). These charges are to New Zealand-based subsidiaries Tenon Manufacturing Limited and Tenon Industries Limited.

(3) These advances are for no fixed term but represent long term funding advances, and bear interest at 8.49% per annum (30 June 2006: 7.75% per annum). The Principal Subsidiaries included within Net Investment in Subsidiary Companies are disclosed in note 29, Principal Operations.

As at 30 June 2006, included within Trade Debtors was $0.2 million relating to the sale of wood products to American Wood Moulding LLC.

Notes to the Financial Statements continued

26. PENSION PLAN

Tenon Group has a defined benefit pension plan that covers certain employees. The benefits are based on years of service and the employees' compensation during their years of employment. The Group's funding policy is to contribute to the plans to the extent that the service and interest costs of the plan are not covered by the return on plan assets and net amortisation and deferrals. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

During 2007, Tenon Limited and the Trustee of the Tenon Retirement Plan agreed to offer the pensioners the right to commute their pensions to lump sums. All pensioners accepted the offer and were paid in March 2007.

Plan assets consist primarily of property, equity and fixed income securities.

	Tenon Group	
	2007 US$m	**2006 US$m**
Assets of Plans at Fair Value as at the beginning of the year	**4**	5
Settlements	**-4**	–
Return on Assets	**–**	1
Benefit Payments	**–**	-1
Presentation Currency Changes	**1**	-1
Assets of Plans at Fair Value	**1**	4
Vested Accumulated Benefit Obligation	**1**	5
Total Accumulated Benefit Obligation	**1**	5
(Deficit)/Excess of Plan Assets over Accumulated Benefit Obligation(1)	**–**	-1
Projected Benefit Obligation as at the beginning of the year	**-5**	-6
Settlements	**5**	–
Benefit Payments	**–**	1
Presentation Currency Changes	**-1**	–
Total Projected Benefit Obligation at the end of the year	**-1**	-5
Assets of Plans at Fair Value	**1**	4
Funded (Obligation)/Surplus	**–**	-1
Recognised Funded Obligation(1)	**–**	-1

(1) Recognised Funded Obligation included within note 31, Discontinued Operations, for June 2007 of nil (June 2006: $0.8 million).

Net (Liability)/Asset at beginning of year	**-1**	-1
Settlements	**1**	–
Net (Liability)/Asset at 30 June	**–**	-1

The following table provides the weighted average assumptions used to develop the net periodic pension cost and the actuarial present value of projected benefit obligations for the Group's plans:

	2007 %	**2006 %**
Assumed Discount Rate on Benefit Obligations	**4.6**	4.0
Expected Long Term Rate of Return on Plan Assets	**5.5**	5.5
Rate of Increase in Future Compensation Levels	**3.5**	3.5
Pensioner Mortality	**PA(90) –4**	PA(90) –4

Notes to the Financial Statements continued

27. EMPLOYEE REMUNERATION

In accordance with Section 211(1)(g) of the New Zealand Companies Act 1993, remuneration and other benefits in excess of NZ$100,000 per annum paid to employees of Tenon Limited and its subsidiaries, both in New Zealand and the United States, not being Directors of the Company during the year are detailed below. The bandings below include retirement and redundancy payments.

			US based Business Number of Employees	NZ based Business Number of Employees
NZ$100,000	to	NZ$110,000	14	4
NZ$110,000	to	NZ$120,000	7	1
NZ$120,000	to	NZ$130,000	10	2
NZ$130,000	to	NZ$140,000	7	2
NZ$140,000	to	NZ$150,000	7	2
NZ$150,000	to	NZ$160,000	4	1
NZ$160,000	to	NZ$170,000	3	1
NZ$170,000	to	NZ$180,000	3	1
NZ$180,000	to	NZ$190,000	2	–
NZ$190,000	to	NZ$200,000	4	1
NZ$210,000	to	NZ$220,000	3	–
NZ$220,000	to	NZ$230,000	2	–
NZ$230,000	to	NZ$240,000	3	–
NZ$240,000	to	NZ$250,000	1	–
NZ$250,000	to	NZ$260,000	1	–
NZ$270,000	to	NZ$280,000	1	–
NZ$290,000	to	NZ$300,000	3	–
NZ$310,000	to	NZ$320,000	1	–
NZ$360,000	to	NZ$370,000	1	–
NZ$370,000	to	NZ$380,000	2	–
NZ$410,000	to	NZ$420,000	–	1
NZ$460,000	to	NZ$470,000	1	–
NZ$500,000	to	NZ$510,000	1	–
NZ$510,000	to	NZ$520,000	1	–
NZ$530,000	to	NZ$540,000	1	–
NZ$600,000	to	NZ$610,000	1	–
NZ$630,000	to	NZ$640,000	1	–
NZ$830,000	to	NZ$840,000	1	–
NZ$1,090,000	to	NZ$1,100,000	1	–

Notes to the Financial Statements continued

27. EMPLOYEE REMUNERATION continued

	2007 US$m	2006 US$m
Key Management Compensation		
Salaries and other short-term employee benefits	**3**	2
Termination benefits	**–**	1
Other payments[(1)]	**–**	–
	3	3

(1) During the June 2006 year entitlements were issued to key management under the Company's Long Term Incentive Plan. These entitlements provide for future incentive payments based on the growth in the Company's share price. While no share options have been or ever will be issued under this Plan, because any benefits under the Plan are linked to the Company's share price performance, accounting rules require the incentive entitlements to be treated as if they were the issue of cash-settled share options ("option-equivalents"). There was no charge to earnings in the current year under the Long Term Incentive Plan.

Long Term Incentive Plan

Participation in the Company's Long Term Incentive Plan is granted to key management by the Tenon Limited Remuneration Committee. Benefits will accrue after three years (or earlier in the case of a change of control) if per annum growth in earnings per share of Tenon shares increases by a compound rate of 10% per annum. If the earnings per share target is met, the employees have a three-year window in which to exercise their entitlement. If election is made, a payment pursuant to the Long Term Incentive Plan will be made which will be the difference between the Tenon share price at the time allocation is made, escalated at an annual hurdle rate of 10%, compounded quarterly, and the Tenon share price at the time the allocation is exercised.

920,000 option-equivalents were issued during the 2006 year at an average Tenon share price of NZ$3.63. These are the only option-equivalents that have been issued under the Long Term Incentive Plan. The exercise price at 30 June 2009 (the first allowable year of exercise) will be NZ$4.83. The option-equivalents, if not exercised, expire in 2012. No option-equivalents were issued during the current year.

The fair value of the option-equivalents are calculated at balance date. The fair value of option-equivalents at balance date, determined using the Black-Scholes valuation model, was US$693. The significant inputs into the model were share price of NZ$2.60 at balance date, average exercise price of NZ$4.83, share price volatility of 9%, exercise date of 2009 and an annual risk free rate of 7%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Tenon share since February 2005 (the date on which the Company cancelled shares and returned capital to shareholders).

Notes to the Financial Statements continued

28. SEGMENTAL INFORMATION SUMMARY

Primary Reporting Format – Business Segment

Tenon is a processing, marketing and distribution business represented by one division – the Moulding and Millwork segment. The Group focuses on the North American market. 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 wholly-owned distribution businesses, The Empire Company, Inc and the Ornamental Mouldings group of companies also source significant quantities of finished mouldings and millwork products from other suppliers.

Secondary Reporting Format – Geographic Segment

June 2007	North America US$m	New Zealand US$m	Total US$m
Revenue	379	89	468
Inter Company Operating Revenue(1)	-20	-54	-74
Operating Revenue	**359**	**35**	**394**
Total Assets – Continuing Operations	**200**	**48**	**248**
Capital Expenditure	**23**	**1**	**24**

June 2006	North America US$m	New Zealand US$m	Total US$m
Revenue	352	97	449
Inter Company Operating Revenue(1)	-11	-68	-79
Operating Revenue	**341**	**29**	**370**
Total Assets – Continuing Operations	**175**	**48**	**223**
Capital Expenditure	**48**	**3**	**51**

(1) Segmental revenue includes transfers between geographical segments. Such transfers are accounted for at competitive market rates charged to unaffiliated customers for similar goods. Transfers are eliminated on consolidation.

Notes to the Financial Statements continued

29. PRINCIPAL OPERATIONS

Tenon Limited is the holding company of the Tenon Group. The Tenon Group's principal subsidiaries and associates, as at 30 June, are outlined below:

	Country of Domicile	Principal Activity	% Holding 2007	% Holding 2006
Principal Subsidiaries				
Tenon Industries Limited	NZ	Funding	**100**	100
Tenon Manufacturing Limited	NZ	Processing	**100**	100
Fletcher Wood Solutions Inc*	USA	Distribution	**100**	100
The Empire Company, Inc**	USA	Distribution	**100**	67
Kok's Woodgoods, Inc**	USA	Processing	**100**	100
Southwest Moulding Co**	USA	Distribution	**51**	51
Ornamental Mouldings LLC	USA	Processing	**100**	–
Ornamental Mouldings Company	Canada	Processing	**100**	–
Associates and Affiliates				
American Wood Moulding LLC**	USA	Distribution	**–**	50
American Moulding, S. de R.L. de C.V.**	Mexico	Distribution	**–**	50

*Name changed from Tenon USA Inc on 26 March 2007.

**Are not restricted subsidiaries under the Group's debt covenants.

30. SUBSEQUENT EVENTS

On 23 August 2007, agreement was reached with the minority shareholders of Southwest Moulding for Tenon to increase its interest in Southwest Moulding by an additional 24.5% interest to 75.5%. The price of the additional 24.5% shareholding was approximately $7.8 million.

At 30 June 2007, the minority interest in Southwest Moulding was recognised as a liability on the Balance Sheet as a deferred settlement and the purchase price of $7.8 million was equal to the valuation recorded on the Balance Sheet. The minority shareholders retain an option to put the remaining balance of 24.5% to Tenon during the period August-October in 2008 or 2009. Tenon may purchase the minority interest at any time.

Notes to the Financial Statements continued

31. DISCONTINUED OPERATIONS

The following information details the financial position and cash flows of the Discontinued Operations of the Tenon Group relating to the structural business sale in April 2005 and the forestry activities disposed of during 2004. There were no earnings in the current or previous period. These operations were previously disclosed as Structural and the Forests and Supply Segment.

	2007 US$m	2006 US$m
BALANCE SHEET		
as at 30 June		
Assets		
Current Assets:		
Forest Assets held for sale	–	1
Total Discontinued Group Assets	–	1
Liabilities		
Current Liabilities:		
Provisions(1)	**1**	2
Total Discontinued Group Liabilities	**1**	2

(1) Pension Liability as at 30 June 2007 is nil (30 June 2006: $0.8 million).

	2007 US$m	2006 US$m
STATEMENT OF CASH FLOWS		
for year ended 30 June		
Net Cash from Operating Activities	**-1**	-2
Net Cash from Investing Activities	–	–
Net Cash from Financing Activities	–	–
Net Cash from Discontinued Operations	**-1**	-2

Report of the Auditors to the Shareholders of Tenon Limited

PRICEWATERHOUSECOOPERS

We have audited the financial statements on pages 19 to 45. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2007 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 14 to 18.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

The firm carries out other assignments for the Company and certain of its subsidiaries in the areas of taxation compliance, financial assurance and advisory services. The firm has no other relationship with or interests in the Company or any of its subsidiaries.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 19 to 45:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the financial position of the Company and Group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 27 August 2007 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants　　　　Auckland

Board of Directors

Simon Luke Moriarty

MS (Stanford), LLB (Hons), BCA (VUW)
Chairman of Directors
Non-Executive Director

Committees
Audit
Nominations
Initially appointed 2001 Last re-elected 2006

Mr Moriarty was appointed Chairman of Directors on 7 October 2005. He is the Chief Executive Officer and an executive director of Rubicon Limited. Prior to that he was a member of the Executive Office of the Fletcher Challenge Group, and was instrumental in structuring the financial separation of the Fletcher Challenge Group in 2001. He joined Fletcher Challenge Limited in 1982, and held a number of senior executive roles across the Fletcher Challenge Group Divisions in New Zealand and North America, including Chief Financial Officer of Fletcher Challenge Canada and Director of TimberWest Forests. He is a director of Horizon2, ArborGen LLC and The Empire Company, Inc.
The Board has determined that Mr Moriarty is not an independent Director because he is a director of Rubicon Forests Limited, the Company's largest shareholder, and a director of Rubicon Limited, the holding company of the Company's largest shareholders.

Michael John Andrews

MNZIF
Non-Executive Director

Committees
Nominations
Remuneration
Initially appointed 1990 Last re-elected 2004

Mr Andrews retired as Chief Executive Officer of Fletcher Challenge in April 2001. He was acting Chief Executive Officer of Fletcher Building until July 2001. He was previously Divisional Chief Executive of Fletcher Challenge Energy, Fletcher Challenge Forests and Fletcher Challenge Paper and previously Chief Executive Officer of the Solid Wood Forestry sector, and before that of the former Energy and Resources Group. He was Chairman of Rubicon until June 2004. He is a director of Eastland Infrastructure, Eastland Port, Eastland Network, Orion NZ and the National Centre for Advanced Bio Protection Technologies.
The Board has determined that Mr Andrews is an independent Director.

Rodger Herbert Fisher

FCIS
Non-Executive Director

Committees
Audit
Nominations
Remuneration (Chairman)
Initially appointed 2001 Last re-elected 2005

Mr Fisher practises as a business consultant. Prior to that he was Managing Director of Owens Group between 1987 and 1999. He is Chairman of Eurotech Group and WEL Networks, a director of Lyttelton Port Company and a director of The Property Group Limited. He is a former Chairman of the Civil Aviation Authority and Aviation Security Services. He is a Fellow of the Chartered Institute of Secretaries, the Chartered Institute of Transport, the Institute of Directors and the New Zealand Institute of Management.
The Board has determined that Mr Fisher is an independent Director.

Stephen Kasnet

BA University of Pennsylvania (Philadelphia)
Non-Executive Director

Committees
Nominations
Remuneration
Initially appointed 2005 Last re-elected 2005

Mr Kasnet is currently Chairman of Rubicon Limited, the holding company of the Company's largest shareholders. He is also President and Chief Executive Officer of Raymond Property Group and Dartmouth Street Company, Chairman of Directors of Columbia Labs, Inc and Trustee and Vice President of the Board of Governors Academy. He has previously held the roles of President and Chief Executive Officer of Harbor Global, a prime asset of which until recently was a timber harvesting and sales operation in eastern Russia covering over three million acres of concession area, Managing Director of First Winthrop Corporation and Winthrop Financial Associates in the US, and also Executive Vice President of the Pioneer Group Inc in the US. His responsibilities there covered the global strategic investments for the Pioneer Group, including venture capital and timber operations.
The Board has determined that Mr Kasnet is not an independent Director because he is a director of Rubicon Forests Limited, the Company's largest shareholder, and he is the Chairman of Rubicon Limited.

Michael Carmody Walls

BA, LLB (VUW), LLM (London)
Non-Executive Director

Committees
Audit (Chairman)
Nominations
Initially appointed 2001 Last re-elected 2006

Mr Walls practises as a business consultant. He was previously the Managing Director, Investment Banking, for BZW New Zealand, and then for its successor, ABN AMRO New Zealand, from 1997 to 2000. Prior to that Mr Walls practised as a commercial lawyer at Chapman Tripp, where he was a partner from 1972 until 1996 specialising in mergers and acquisitions, international finance and corporate law. Mr Walls is a former Chairman of BHP NZ Steel Holdings, and a former Chairman of the formerly listed Independent Press Communications. In addition, he has been a director of a number of unlisted companies. He is the Chairman of the Board of the New Zealand Institute of Economic Research.
The Board has determined that Mr Walls is an independent Director.

Corporate Governance

The Board of Tenon Limited is committed to the highest standards of corporate governance, which the Company recognises as fundamental to its business activities. The Company continually monitors, reviews and improves its governance practices.

The Company's governance procedures are designed to meet the following principles:

1. Directors should observe and foster high ethical standards.
2. There should be a balance of independence, skills, knowledge, experience, and perspectives among Directors so that the Board works effectively.
3. The Board should use committees where this would enhance its effectiveness in key areas while retaining Board responsibility.
4. The Board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on Group affairs.
5. The remuneration of Directors and executives should be transparent, fair and reasonable.
6. The Board should regularly verify that the Group has appropriate processes that identify and manage potential and relevant risks.
7. The Board should ensure the quality and independence of the external audit process.
8. The Board should foster constructive relationships with shareholders that encourage them to engage with the Group.
9. The Board should respect the interests of stakeholders within the context of the Group's ownership type and its fundamental purpose.

Code of Business Conduct and Ethics

The Company has written procedures to:

- Clarify the standards of the high ethical behaviour required of Directors, executives and employees; and
- Prescribe the circumstances where Directors and employees can trade in the Company's securities.

The Company's Code of Business Conduct and Ethics underpins all its activities, and recognises the Company's legal and other obligations to legitimate stakeholders. It applies to all Directors, executives and employees. The Code ensures that Company decisions reflect the Company's core values of action orientation, innovation, commercial intensity, customer focus, accountability, teamwork, respect for the individual, respect for the environment and safety. Various policies and procedures implement the Code of Business Conduct and Ethics. The Code can be viewed on www.tenon.co.nz.

A comprehensive code has been adopted by the Company to prohibit trading in the Company's securities by Directors, executives and certain groups of people within the Company outside of two specified trading windows that commence after release to the market of the Company's half year and full year results. Trading within the trading windows is subject to a formal Board approval process, designed within the framework of New Zealand's insider trading laws.

Role of the Board

The Board is elected by shareholders to create value and has overall responsibility for management of the Company. The Board is structured in a way that it:

- Has a balance of independence, skills, knowledge, experience and perspectives among Directors;
- Has a proper understanding of, and competence to deal with, the current and emerging issues of the business; and
- Can effectively review and challenge the performance of Management and exercise independent judgement.

The Company achieves Board and Management accountability through having formal strategies, policies and procedures, which includes a formal charter for the Board and its Committees, and for the Chairman, Directors and Management.

The Chief Executive Officer is responsible for the day-to-day management of the Company's business and for ensuring that the policies and strategies approved by the Board are implemented.

There is a formal delegation of authority to the Chief Executive Officer.

The Board evaluates the performance of the Chief Executive Officer annually. The evaluation is based on criteria that include the performance of the business, the accomplishment of long-term strategic objectives and other specific objectives agreed at the beginning of each year.

The Board currently comprises five non-executive Directors. One third must retire at each Annual Shareholders Meeting.

The Chairman's role is to manage and provide leadership to the Board and to interact with the Chief Executive Officer.

The governance procedures require that the roles of Chairman and Chief Executive Officer should not be held by one person at the same time.

The Company's policy is that the Board should be comprised of at least two independent Directors.

Independent Directors are generally regarded as being independent of Management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The Board regularly assesses the independence of each Director, in light of interests disclosed by them to the Company.

R H Fisher, M C Walls and M J Andrews are independent Directors under the NZX corporate governance guidelines, which are used by the Company to determine independence.

Corporate Governance continued

S L Moriarty and S G Kasnet are not considered by the Board to be independent Directors because they are Directors of the parent company of the Company's largest shareholder, Rubicon Forests Limited. S L Moriarty is also Chief Executive of that company's parent, Rubicon Limited.

The Board is responsible for the management of the Company. Day to day leadership and management of the Company is delegated to the Chief Executive Officer. Specific matters reserved to the Board include:

- Oversight of the Company;
- Monitoring Company and Management performance;
- Appointing, compensating and removing the Chief Executive Officer;
- Approving and monitoring corporate strategy and performance objectives;
- Reviewing risk management and reporting systems;
- Approval of major capital expenditure; and
- Approval of the Annual and Interim financial statements and reports.

Board Process

The Board has scheduled meetings each year, but also meets on an as-needed basis. Directors receive comprehensive information on the Company's operations in advance of meetings. Senior Management is available at all Board meetings to answer questions and to assist the Board in its understanding of the Company's business.

The Board of Directors meets periodically without Management present.

The Board also holds an extended strategic planning meeting once a year.

New Directors are appropriately introduced to the Company and to relevant industry knowledge and economics. This includes visits to specific Company operations, and briefings from key executives.

Directors are required to consult with the Chairman before accepting any other board appointment or other commitment that might adversely impact on the ability of the Director to perform the Director's obligations to the Company.

An annual performance evaluation is conducted of the Board and its members. This is conducted by the Chairman of the Board by one-on-one discussions with members and by the use of questionnaires. The results of the evaluation are discussed by the Board.

A Director may, with the prior written approval of the Chairman, and at the Company's expense, seek independent advice on an issue affecting the Director's duties to the Company.

Board Committees

Committees have been established by the Board to assist the Board in the execution of its responsibilities.

They are used where this would enhance the Board's effectiveness in key areas, while retaining Board responsibility.

There are currently three Committees: Audit Committee, Nominations Committee and Remuneration Committee. Other Committees may be established from time to time to consider matters of special importance.

A Committee may engage separate independent counsel and/or advisors at the expense of the Company.

Each Committee has adopted a comprehensive Charter addressing membership, authority, responsibilities and reporting procedures. These can be reviewed on the Company's website.

All non-executive Directors are entitled to attend all Committee meetings. Executive Directors and Management attend Committee meetings by invitation.

All non-executive Directors receive copies of papers and minutes of meetings of the Committees.

An annual performance evaluation is conducted for each Committee. The results of the evaluation are discussed by the Committee, and by the Board.

Audit Committee

Committee members:
M C Walls (Chairman), R H Fisher and S L Moriarty

The Board appoints the members of the Audit Committee from the non-executive Directors of the Company. It consists of not less than three members. The Chairman is an independent Director and a majority of the members are independent Directors.

The Audit Committee oversees all matters concerning:

- Internal accounting, control and business risk management policies and systems;
- Suitability of the Group's accounting policies and principles;
- Financial reporting, including reviewing the half year and full year financial statements;
- The internal audit function; and
- The appointment and supervision of the external auditors.

The external auditors attend all meetings of the Audit Committee.

A majority of the members of the Audit Committee must be independent Directors.

Any employee has access to the Chairman of the Audit Committee at any time.

Corporate Governance continued

The Audit Committee pre-approves all audit and audit-related services and non-audit services to be provided by the Company's audit firm to ensure that they do not impair the external audit firm's independence from the Company.

The Audit Committee also approves an annual internal audit programme, and the results of that programme are reported directly to the Committee.

Remuneration Committee

Committee members:

R H Fisher (Chairman), M J Andrews and S G Kasnet

The Board appoints the members of the Remuneration Committee from the non-executive Directors of the Company. It consists of not less than three members. The Chairman is an independent Director and a majority of the members are independent Directors.

The Remuneration Committee ensures that remuneration and recruitment policies and practices are aligned with the creation of shareholder value and the Company's objectives. The Committee sets the remuneration levels for executives who report to the Chief Executive Officer and makes recommendations to the Board with regard to the remuneration of the Chief Executive Officer. The Committee also at least annually reviews the performance of the senior executives based on performance against agreed objectives, and sets the guidelines for the annual salary review and bonus payments for salaried employees. The Chief Executive Officer's performance is reviewed by the full Board.

The Remuneration Committee reviews and makes recommendations to the Board with regard to Director remuneration.

Nominations Committee

Committee members:

S L Moriarty (Chairman), M J Andrews, R H Fisher, S G Kasnet and M C Walls

The Nominations Committee comprises the five non-executive Directors.

The Committee is responsible for considering Board nominations.

Financial Reporting

It is the Board's responsibility to ensure the integrity of the Company's financial reporting. A structure of review and authorisation has been put in place that is designed to ensure the truthful and factual presentation of the Company's financial position. This structure includes:

- An Audit Committee comprised of a majority of independent Directors, with a chairman who is not also the Chairman of the Board, appropriately resourced, and with a written charter;
- An independent review of the Company's financial statements by the Company's external auditor;
- A review by the Audit Committee of the half year and full year financial statements, with the external auditor present;
- Certification of the financial statements by the Chief Executive Officer and the Chief Financial Officer;
- Policies with regard to the independence of the external auditor;
- The Audit Committee meeting with the external auditor, without Management present; and
- A code of ethics for employees.

Auditor Independence

The Board considers it is essential that the Company's external auditor be independent, and also be seen to be independent. The Company has an auditor independence policy which is designed to ensure that the Company's auditor does not have a mutual or conflicting interest with that of the Company, nor its independence impaired in relation to its performance of audit, or audit-related, services to the Company.

The Company has adopted the following key policies in relation to auditor independence:

- The auditor is required to abide by defined independence standards;
- The Audit Committee must pre-approve the appointment of the auditor to provide any non-audit services to the Company or its subsidiaries and the Chairman of the Committee may, pursuant to a delegation from the Committee, approve lower-cost non-audit services to the Company;
- The auditor is required to report in writing to the Audit Committee on an annual basis on matters relating to its independence;
- The auditor is required to rotate its lead audit partner and the audit partner responsible for reviewing the audit on a five yearly basis, and such partners cannot be re-involved with the Company for a further five years; and
- The auditor is required to attend the Annual Shareholders Meeting of the Company and answer any shareholder questions relating to the audit or audit report.

Remuneration Policy

The remuneration of Directors and executives is transparent, fair and reasonable.

The Company has adopted remuneration policies that are designed to encourage and reward performance and the creation of shareholder value, and also attract and retain talented and motivated employees. A range of performance-based incentive schemes are in place among Tenon and its subsidiaries. These all involve a significant proportion of the annual remuneration of executive and senior management employees being linked to Company or subsidiary performance. The Company uses objective third party benchmarking systems to ensure its remuneration is aligned to market. For example, in New Zealand the Company has a policy of maintaining base remuneration for its salaried employees within a band around the industry median. Remuneration outside that band is permitted only in exceptional circumstances, such as where special skills are required.

Corporate Governance continued

The Company has comprehensive and objective formal programmes for setting the performance objectives of its employees, and for monitoring performance against those objectives.

Adjustments to the remuneration of salaried employees must first be approved by the Remuneration Committee. The remuneration of the Chief Executive Officer must be approved by the Board of Directors.

On page 41 is a table describing remuneration and other benefits in excess of NZ$100,000 per annum paid to employees of the Company and its subsidiaries.

On page 52 is a table describing the fees paid to the Directors of the Company during the year.

Directors do not receive any remuneration from the Company other than in their capacity as Directors.

The Company has prohibited the making of loans to Directors and employees.

Controlling and Managing Risk

The Company is, like any other business, exposed to risks. A central function of Management is to effectively identify and manage those risks within policy levels set by the Board. The Company has a sound system of risk oversight and management and internal control. It has a range of policies, practices and procedures that help the Company to manage business risks. These are reviewed regularly as part of the Company's risk management process. The Chief Executive Officer and Chief Financial Officer are required to ensure that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

NZX Corporate Governance Principles

The Company's corporate governance process materially differs from the principles set out in the NZX Corporate Governance Best Practice Code in that the Company does not offer any equity security compensation plan to Directors and all Directors may attend meetings of the Audit Committee.

Ensuring the Market is Properly Informed

The Company has in place comprehensive, Board-approved, disclosure policies and procedures that are designed to ensure timely and balanced compliance with the information disclosure requirements of the New Zealand Exchange, which are designed to ensure that:

- All investors have equal and timely access to material information concerning the Company – including its financial situation, performance and governance; and
- Company announcements are factual and presented in a clear and balanced way.

Keeping in Touch with Shareholders and Stakeholders

The Company strives to effectively communicate with its shareholders and stakeholders, by giving them ready access to balanced and understandable information about the Company and corporate proposals, and by making it easy to participate in shareholder meetings. Ways that the Company achieves these objectives include:

- A website is maintained with information about the Company, including information about its businesses, copies of all stock exchange releases made by the Company, copies of media releases, full year and half year reports and supplementary financial information;
- An Annual Shareholders Meeting is held, which any shareholder can attend;
- The speeches and presentations which are delivered to the Annual Shareholders Meeting are placed on the Company's website;
- The results of the voting at shareholder meetings, together with voting statistics, are announced to the stock exchange;
- Letters are sent directly to shareholders on major events affecting the Company;
- Full year reports and half year reports which include an update of Company strategy and developments are mailed to shareholders; and
- An investor relations email in-box enables a quick response to investor enquiries.

Statutory Disclosure

Directors' Interests Register

Directors' certificates to cover entries in the Interests Register in respect of remuneration, dealing in the Company's securities, insurance and other interests have been disclosed as required by the New Zealand Companies Act 1993.

Non-Executive Directors' Remuneration

Non-executive Directors' remuneration for the 30 June 2007 year was $44,603 (NZ$65,000)(1) per annum, with the Chairman receiving $89,206 (NZ$130,000)(2) per annum. Chairmen and members of board committees do not receive additional fees for participation on board committees.

The aggregate amount of fees paid by Tenon Limited to non-executive Directors for services in their capacity as Directors during the year ended 30 June 2007 was $267,618 (NZ$390,000).

Fees, prior to any taxation liability, paid to individual non-executive Directors in the year ended 30 June 2007 were:

	Fee
M J Andrews	44,603
R H Fisher	44,603
S G Kasnet	44,603
S L Moriarty(2)	89,206
M C Walls	44,603
Total	$267,618

(1) Directors' fees have been translated from New Zealand dollars at an average foreign exchange rate of NZ$1 = US$0.6862.

(2) Total Directors' fees in relation to S L Moriarty were paid directly to Rubicon Limited.

Executive Directors' Remuneration

Executive Directors do not receive remuneration as Directors of Group subsidiaries.

Incentive Remuneration

On 11 September 2007 the Company's independent directors approved a three-year, long-term incentive plan (LTI Plan) for the senior management team at The Empire Company (Empire). The LTI Plan is designed to align management remuneration with the performance of Empire. Independent advice was obtained from external remuneration consultants. The LTI Plan provides for the eight members of the Empire senior management team to be eligible to receive a taxable incentive payment in September 2010 based on the performance of Empire for the three preceding financial years – i.e. the period beginning 1 July 2007 through to that ending 30 June 2010. The key performance metrics measured under the LTI Plan are EBITDA and working capital levels. Annual target EBITDA and working capital levels (as determined by the independent directors) are based on both prior year performance and the expected performance improvement in the business. The incentive payments made to senior Empire management will be calculated based on the amount by which Empire's actual EBITDA and working capital levels exceed the target levels determined by the independent directors. The theoretical maximum payout under the LTI Plan is $4.2 million.

The Company has relied on the exception provided in NZX listing rule 9.2.4(c) which allows the Company to offer the LTI Plan to the Empire senior management team without requiring shareholder approval. To satisfy the exception, the independent directors of the Company provided a certificate to the NZX on 11 September 2007 certifying that the terms of the LTI Plan were set on an arm's length, commercial basis and that the LTI Plan was approved by the independent directors of the Company.

The remuneration of the Company's US-based Chief Executive, Mark Eglinton, was reviewed during the period by the Remuneration Committee and the independent directors. The purpose of the review was to ensure that the total remuneration for the Chief Executive was in line with market practice (in this case, with market practice in the United States) and consistent with the achievement of the Company's objectives. Independent advice was obtained from external remuneration consultants. As a consequence of that advice, and following a full assessment of the future goals of the Company, on 14 September 2007 Tenon's directors approved changes to the Chief Executive's total remuneration package. Details of changes to his remuneration are as follows:

- Base salary (which is subject to annual review) has been moved to $320,000;
- 100% of base salary is available in each year as a short-term incentive payment if all annual targets and objectives (which are set each year by the Remuneration Committee) are met in full; and
- The Chief Executive ceases to be entitled to participate in the Senior Executive Incentive Scheme previously approved by the NZX in 2005, and instead, he will participate in a new long-term incentive plan (new LTI Plan). Under the new LTI Plan, which has a one-time pay-out date of 1 September 2009, the Chief Executive may earn up to three times his average base salary. Whether or not any payment is made to him, and the quantum of any payment, will be totally dependent upon the Company achieving set targets – the key target being growth in Tenon EBITDA over the next two years. The maximum pay-out under the new LTI Plan will be made if fiscal 2009 EBITDA meets or exceeds $40 million (exclusive of corporate overheard).
- The Chief Executive's other standard employment related benefits, which were approved by the NZX in 2005, remain unchanged.

The Company has relied on the exception provided in listing rule 9.2.4(c) which allows the Company to agree the changes to the Chief Executive's remuneration without requiring shareholder approval. To satisfy the exception, the independent directors of the Company provided a certificate to the NZX on 14 September 2007 certifying that the changes to the remuneration were set on an arm's length, commercial basis and that the changes were approved by the independent directors of the Company.

Statutory Disclosure continued

Subsidiary Company Directors

Section 211(2) of the New Zealand Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors and particulars of entries in the interests registers made during the year ended 30 June 2007.

Apart from some overseas subsidiaries which have independent Directors or are required to have a specific number of local residents as Directors, and apart from S L Moriarty's position as Director of The Empire Company, Inc, no subsidiary except certain nominee companies had Directors who were not full-time employees of the Group.

No employee of the Tenon Limited Group appointed as a Director of Tenon Limited or its subsidiaries receives or retains any remuneration or other benefits as a Director.

The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed in the Notes to the Financial Statements, where the employee received remuneration and other benefits totalling NZ$100,000 or more during the year ended 30 June 2007.

No Director of any subsidiary company within the Group receives Director's fees or other benefits in their capacity as a Director.

The following persons respectively held office as Directors of subsidiary companies at the end of the year or in the case of those persons with the letter (R) after their name ceased to hold office during the year.

Fletcher Challenge Forests Finance Limited
M K Eglinton, P M Gillard, J E Paice, A S White

Tenon Industries Limited
M K Eglinton, P M Gillard, J E Paice, A S White

Tenon Manufacturing Limited
M K Eglinton, P M Gillard, J E Paice, A S White

Tenon Holdings Limited
M K Eglinton, P M Gillard, J E Paice, A S White

Fletcher Challenge Limited
M K Eglinton, P M Gillard, J E Paice, A S White

Kaingaroa Holdings Limited
P M Gillard

CNI Forest Nominees Limited
M K Eglinton, P M Gillard, J E Paice, A S White

Tenon Retirement Plan Nominees Limited
P M Gillard, J McDonald, G D Niccol

Tenon Employee Educational Fund Limited
P M Gillard, A C Grinter, J McDonald

Tenon Welfare Fund Nominees Limited
P M Gillard, W J Neumann (R), G D Niccol, M R Taylor

NACS USA, Inc
R L Fitzgerald (R), M K Eglinton, A S White

Fletcher Wood Solutions, Inc *(formerly Tenon USA, Inc)*
R L Fitzgerald (R), M K Eglinton, A S White

Tenon USA Holding Company
M K Eglinton

The Empire Company, Inc
M K Eglinton, P M Gillard, T H Highley, S J Johandes, S L Moriarty, A S White

Kok's Woodgoods, Inc
S R Grossman, T B Highley, T H Highley, C R Kok

Southwest Moulding Co LP
D Bell, M K Eglinton, T B Highley, T H Highley, R Middleton

AWM Acquisitions Corporation
P M Gillard

Ornamental Mouldings Company
M K Eglinton, A S White, P M Gillard, M J Pearce

Ornamental Mouldings, LLC
M K Eglinton, A S White, P M Gillard

Ornamental Investments, LLC
M K Eglinton, A S White, P M Gillard

Comanche Investments, LLC
M K Eglinton, A S White, P M Gillard

Fairfield Road, LLC
M K Eglinton, A S White, P M Gillard

Ornamental Products, LLC
M K Eglinton, A S White, P M Gillard

Tenon Muskoka Company(1)
M K Eglinton, A S White

3078831 Nova Scotia Company(1)
M K Eglinton, A S White

(1) Amalgamated into Ornamental Mouldings Company on 25 August 2007

Statutory Disclosure continued

Directors' Interests

In accordance with Section 140(2) of the Companies Act 1993, Directors have advised the following changes in their interests:

R H Fisher		
The Property Group Limited	Appointed	Director
S G Kasnet		
Stratleade Inc	Appointed	Trustee
Raymond Property Group	Appointed	President and Chief Executive Officer
Dartmouth Street Company	Appointed	President and Chief Executive Officer
Harbor Global Company Limited	Resigned	President and Chief Executive Officer
PioGlobal Investment Fund	Resigned	Chairman
PioGlobal First Russia	Resigned	Chairman
Bank North, Massachusetts	Resigned	Director
S L Moriarty		
American Wood Moulding	Resigned	Director
The Moriarty Superannuation Fund	Appointed	Trustee and sole beneficiary

During the year S G Kasnet and S L Moriarty were restricted, in accordance with section 145(2) of the NZ Companies Act 1993, from disclosing to Rubicon Limited any information which either of them may have had in his capacity as a Director of Tenon Limited, except to the extent that such disclosure was allowed under the Act.

Directors' and Officers' Indemnity and Insurance

In accordance with section 162 of the New Zealand Companies Act 1993 and the Constitution of the Company, the Company has given indemnities to, and has effected insurance for, Directors and executives of the Company and its related companies which, except for specific matters which are expressly excluded, indemnify and insure Directors and executives against monetary losses as a result of actions or omissions by them in the course of their duties. Specifically excluded from the indemnity are actions for criminal liability or breach of the Director's duty to act in good faith and in what the Director believes to be the best interests of the Company.

On 1 July 2007 the Company effected directors' and officers' liability and statutory liability insurance which was noted in the Interests Register.

Dealing in Company Securities

The Company's Securities Trading Code of Conduct for insider trading supplements the New Zealand legislation containing the Insider Trading (Approved Procedure for Company Officers) Notice 1996. That legislation and the Securities Trading Code of Conduct prevent short-term trading and dealing in the Company's securities whilst Directors and senior executives are in possession of non-public material and relevant information.

During the financial year Directors disclosed trades in shares in respect of Section 148(2) of the New Zealand Companies Act 1993, details of which are scheduled on page 55.

Donations

Donations totalling $41,114 were made during the year.

Auditor's Fees

Fees payable to PricewaterhouseCoopers during the year are disclosed on page 27.

Credit Rating

Tenon has not sought a credit rating.

New Zealand Exchange Disclosure

On 19 October 2006, New Zealand Exchange Regulation granted the Company a waiver from Listing Rule 9.2.1 in connection with the Company's exchange of the shares in American Wood Moulding (AWM) that were held by the Company for the shares in the Ornamental Mouldings group of companies that were held by AWM. Prior to the transaction, AWM was jointly owned by Shearwater Holding Inc and the Company. Listing Rule 9.2.1 relates to the entering into of a material transaction involving a related party. Shearwater Holding Inc was considered a related party of the Company because of the joint venture between the Company and Shearwater Holding Inc in relation to AWM. New Zealand Exchange Regulation found it appropriate to grant a waiver from Listing Rule 9.2.1 as the relationship between Shearwater Holding Inc and the Company was considered plainly unlikely to influence the proposed transaction.

Statutory Disclosure continued

Directors' Holdings – Equity Securities

Tenon Limited Ordinary Shares

	30 June 2007 Beneficial	30 June 2007 Non-Beneficial	30 June 2007 Associated Persons	30 June 2006 Beneficial	30 June 2006 Non-Beneficial	30 June 2006 Associated Persons
M J Andrews	**–**	**–**	**11,943**	–	–	11,943
R H Fisher	**750**	**–**	**–**	750	–	–
S G Kasnet	**–**	**–**	**–**	–	–	–
S L Moriarty	**27,155**	**–**	**–**	2,551	–	–
M C Walls	**10,750**	**–**	**–**	10,750	–	–
	38,655	**–**	**11,943**	14,051	–	11,943

Disclosure of Directors' Dealings

Director	Date	Securities Acquired Ordinary	Consideration
S L Moriarty	8/03/2007	24,604	$49,917

Shareholder Statistics

Largest Shareholders

The 20 shareholders with the largest holdings of shares as at 31 July 2007 were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
Rubicon Forests Limited	20,922,323	31.30
New Zealand Central Securities Depository Limited	19,008,170	28.43
Rubicon Forests Holdings Limited	12,303,716	18.40
Rubicon Forests Investments Limited	5,129,823	7.67
Tenon Custodians Limited	198,360	0.29
Chin Yi Lin	121,000	0.18
P H Masfen & J A Masfen	100,068	0.14
FNZ Custodians Limited	77,485	0.11
Tenon Employee Educational Fund Limited	70,130	0.10
Imperator Investments Limited	58,000	0.08
A S Limmer & N A Limmer	50,000	0.07
S P Wallace & J N Simpson	50,000	0.07
G J Butler & S J Butler	50,000	0.07
P J Nieuwendyk & I M Nieuwendyk & F Ashworth	48,333	0.07
Fletcher Building Educational Fund Limited	47,109	0.07
Leveraged Equities Finance Limited	46,204	0.06
S K Lee & M C Lee Ma	45,328	0.06
K S S So & W Y Cheng	45,266	0.06
Geary Limited	42,350	0.06
Keith Alexander Stewart	41,277	0.06
	58,454,942	87.44
Total Shares	66,850,661	

NZCSD

New Zealand Central Securities Depository Limited ("NZCSD") is a depository system which allows electronic trading of securities to its members. At 31 July 2007, the 10 largest shareholdings held through NZCSD were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
National Nominees New Zealand Limited	6,447,647	9.65
HSBC Nominees (NZ) Limited	4,312,859	6.45
ANZ Nominees Limited	2,007,801	3.00
Citibank Nominees (New Zealand) Limited	1,908,478	2.85
Accident Compensation Corporation	1,821,855	2.73
Custody & Investment Nominees Limited – A/c TEAC65	1,354,938	2.03
Cogent Nominees Limited	1,145,304	1.71
Guardian Trust Investments Nominees (RWT) Limited	8,462	0.01
NZ Guardian Trust Investment Nominees Limited	489	0.00
Courtenay Nominees Limited	337	0.00
	19,008,170	28.43
Total Shares	66,850,661	

Shareholder Statistics continued

Distribution of Shares – 31 July 2007

Size of Holdings		Ordinary Shareholders Number	%	Ordinary Shares Million	%
1 –	99*	22	0.28	0.0	0.00
100 –	499	3,902	48.92	0.9	1.37
500 –	999	2,103	26.36	1.5	2.28
1,000 –	4,999	1,646	20.64	3.0	4.50
5,000 –	9,999	166	2.08	1.0	1.59
10,000 –	99,999	130	1.63	2.6	3.82
100,000	and over	7	0.09	57.8	86.44
		7,976	100.00	66.8	100.00

*Less than a minimum holding: As at 31 July 2007, 144 holders of ordinary shares held less than the minimum holding of 100 or less shares under the NZX listing rules.

Supplemental Disclosure of Domicile of Beneficial Owners*

	Ordinary Shares Million	%
New Zealand	52.80	79.0
United States of America	12.90	19.4
Australia	0.40	0.6
United Kingdom/Europe	0.06	0.1
Asia/Japan	0.60	0.9

*Updated for information received in response to notices under sections 28 and 29 of the New Zealand Securities Markets Act 1988.

Substantial Security Holders

As at 31 July 2007 the following persons have given notice (in terms of the New Zealand Securities Markets Act 1988) that they are substantial security holders in Tenon. In terms of the Act, the number of Tenon ordinary shares shown as held below is as last advised to Tenon by the substantial security holder.

	Tenon Ordinary Shares	% of Tenon Shares
Rubicon Forests Limited	38,348,369	57.37
Third Avenue Management LLC	12,072,641	18.06
Total issued voting shares as at 31 July 2007	66,850,661	

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.

2007-2008 Calendar

- Annual Shareholders' Meeting: 30 November 2007
- Half Year End: 31 December 2007
- Half Year Results Announcement: February 2008
- Financial Year End: 30 June 2008
- Annual Results Announcement: August 2008
- Mailing of 2008 Annual Report: week of 23 September 2008

Dividend

There is no 2007 dividend.

Tenon Shares

Tenon Limited has one class of shares, Ordinary shares. Prior to the capital return and share cancellation which took place on 16 February 2005, the Company had two classes of shares, Ordinary and Preference. The two classes were amalgamated as a consequence of the share cancellation.

New Zealand Exchange

Ordinary shares TEN

Issued Share Capital (Number of Shares)

Ordinary shares 66,850,661 as at 31 July 2007

Share Registry Enquiries

Shareholders with enquiries about share transactions, changes of address or dividend payments can access the Computershare website www.computershare.co.nz and check their shareholding online. Enquirers should click on Investors, and then click on Account Summary. They can then enter the Company name, and their shareholder number and FIN.

Computershare Investor Services Limited
Private Bag 92-119,
Auckland 1142, New Zealand
Level 2, 159 Hurstmere Road,
Takapuna, North Shore City, 0622
Telephone: 64-9-488-8777
Facsimile: 64-9-488-8787
E-mail: enquiry@computershare.co.nz

Company Websites

www.tenon.co.nz
www.tenonusa.com
www.empireco.com
www.ornamentalmouldings.com
www.southwestmoulding.com
www.kokswoodgoods.com

Other Investor Enquiries/Registered Office

Investor Relations
Tenon Limited
Level 3,
7 Fanshawe Street,
Auckland, 1010
Private Bag 92-036,
Auckland Mail Centre, 1142, New Zealand
Telephone: 64-9-368-4198
Facsimile: 64-9-368-4197
E-mail: investor-relations@tenon.co.nz

Forward-Looking Statements

There are forward-looking statements included in this document which include, but are not limited to, statements under the heading "Letter to Shareholders". 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). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular Tenon's operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it competes. Fluctuations in industrial output, commercial and residential construction activity, relative exchange rates, and interest rates in each market, can have a substantial impact on Tenon's results of operations and financial condition. Other risks include competitor product development and pricing and customer concentration risk.

Directors

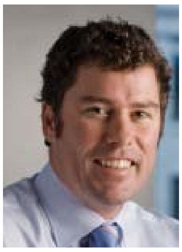
Simon Luke Moriarty (Chairman)
Michael John Andrews
Rodger Herbert Fisher
Stephen Garfield Kasnet
Michael Carmody Walls

See page 47 for details of Directors.

Investor Information continued

Senior Management

Mark K Eglinton – Chief Executive Officer



Mark Eglinton joined Tenon Limited in 2001 as Commercial Director. He was appointed General Manager, North American Consumer Solutions in December of that year. Previously he held a number of positions within Fletcher Challenge Building until his appointment as Managing Director of Fletcher Aluminium (a division of Fletcher Challenge Building) in 1999. Mark has a Bachelor of Commerce and a Bachelor of Laws from the University of Otago. Mark was appointed Chief Executive Officer on 1 October 2005.

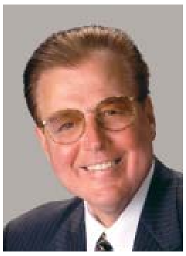
Paul M Gillard – General Manager, Corporate

Paul Gillard joined Tenon Limited in 2001. He had previously spent five years as Corporate Counsel with EDS (New Zealand) Limited, one of New Zealand's largest IT service providers. Paul's role with EDS also encompassed responsibilities in Australasia, for the EDS Group. From 1989-1996 he was Corporate Counsel and manager of the legal department for Telecom. Paul formerly practised as a lawyer to partnership level in New Zealand, and also worked for a law firm in Washington DC. Paul has a Bachelor of Laws from Victoria University, in Wellington.

Tom B Highley – President, The Empire Company, Inc.

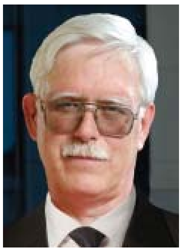
Tom B Highley joined Empire in 2001 as Vice President of the Pro-Dealer National Chain business. He was promoted to Vice President of the entire Pro-Dealer Division in May of 2002 and subsequently promoted to President of Empire in September of 2004. Previous to his employment with Empire, he held a number of positions in sales, marketing, and management within the consumer products and medical device industries. Tom has a Bachelor degree in International Relations and Economics from the University of Wisconsin in Milwaukee and has attended the Marquette University MBA programme for graduate school.

Tom H Highley – Chief Executive Officer, The Empire Company, Inc.



Tom joined Empire in 1991 as President and CEO. He orchestrated a leveraged buy-out of Empire in 1993. Previously, as Group Vice President of SNE Enterprises, Tom presided over the turnaround of four companies. After graduating from Ohio State University in 1967, Tom was employed by Owens-Corning Fibreglass in various sales and marketing management positions. Tom was recently honoured as West Michigan's Entrepreneur of the Year.

Jim Pearce – Chief Executive Officer, Ornamental Group



Jim Pearce joined Ornamental in July 1992 as Regional Sales Manager and National Accounts Manager. In 1994 he was appointed Vice-President Sales and in 1996 President. Previous to his employment with Ornamental, Jim held senior buying and IT positions in the Canadian home centre industry. Jim has a Bachelor degree in Philosophy from Brock University in St Catherines, Ontario.

Mark R Taylor – General Manager, Taupo Operations

Mark Taylor joined Tenon in 1984. He has held several management roles at Taupo, including Sawmill Production Manager and Solid Lineal Mouldings Plant Manager. He was appointed General Manager of the Taupo site in May 2006. Mark has extensive experience in the manufacture of high quality wood products which the company exports to the US, including development of the Company's Armourwood™ and LIFESPAN™ outdoor treated product ranges.

Adam S White – Chief Financial Officer

Adam White joined Tenon Limited in 1999 as Commercial Manager for the North America business unit. He was appointed Chief Financial Officer of Tenon Limited in March 2006. He was also appointed Chief Financial Officer of The Empire Company in March 2007, a role he previously occupied until February 2004. Prior to joining Tenon, Adam held corporate accounting roles in the UK and has worked for PricewaterhouseCoopers in New Zealand and the UK. Adam holds a Bachelor of Science degree from the University of Aston in Birmingham, UK.

www.tenon.co.nz