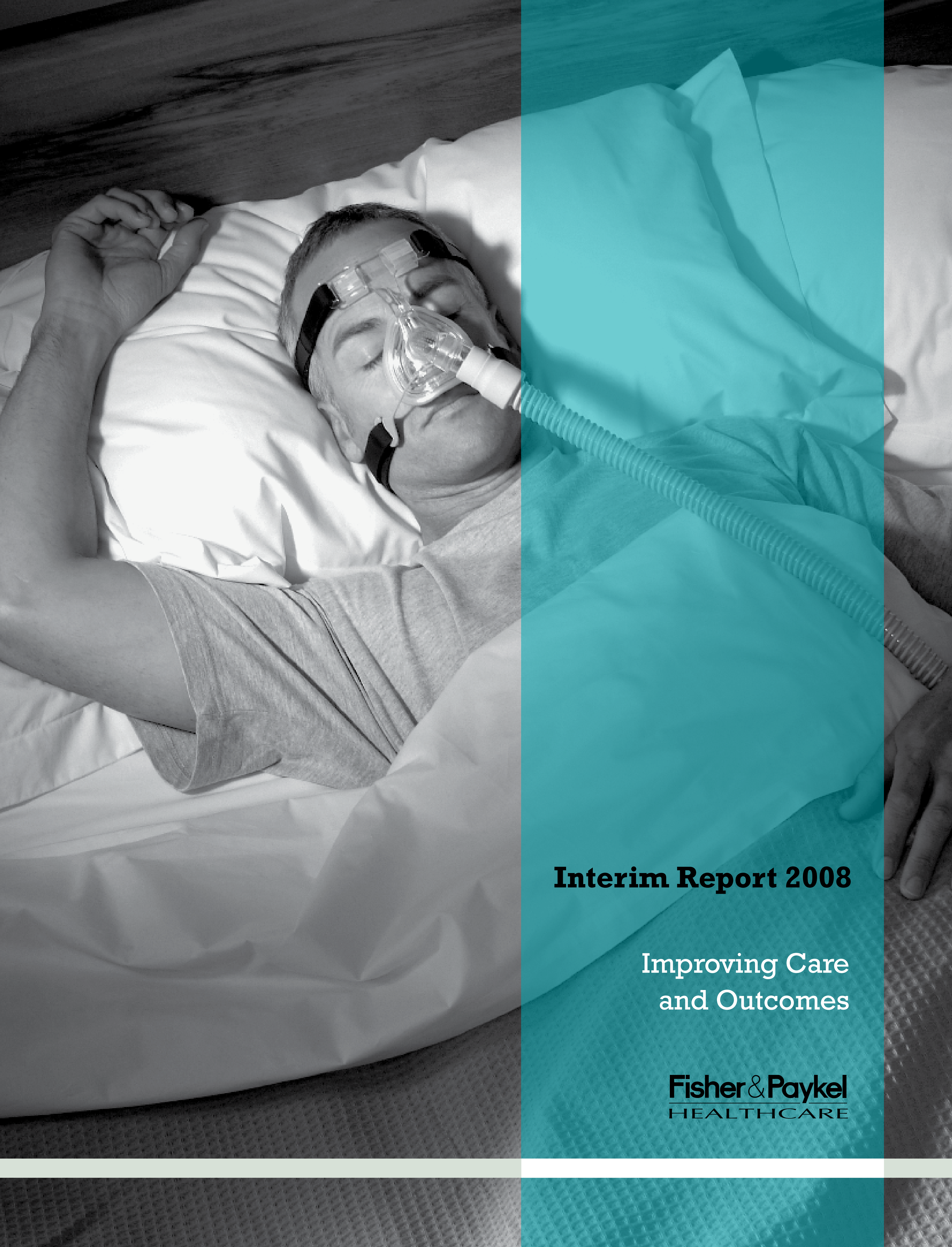
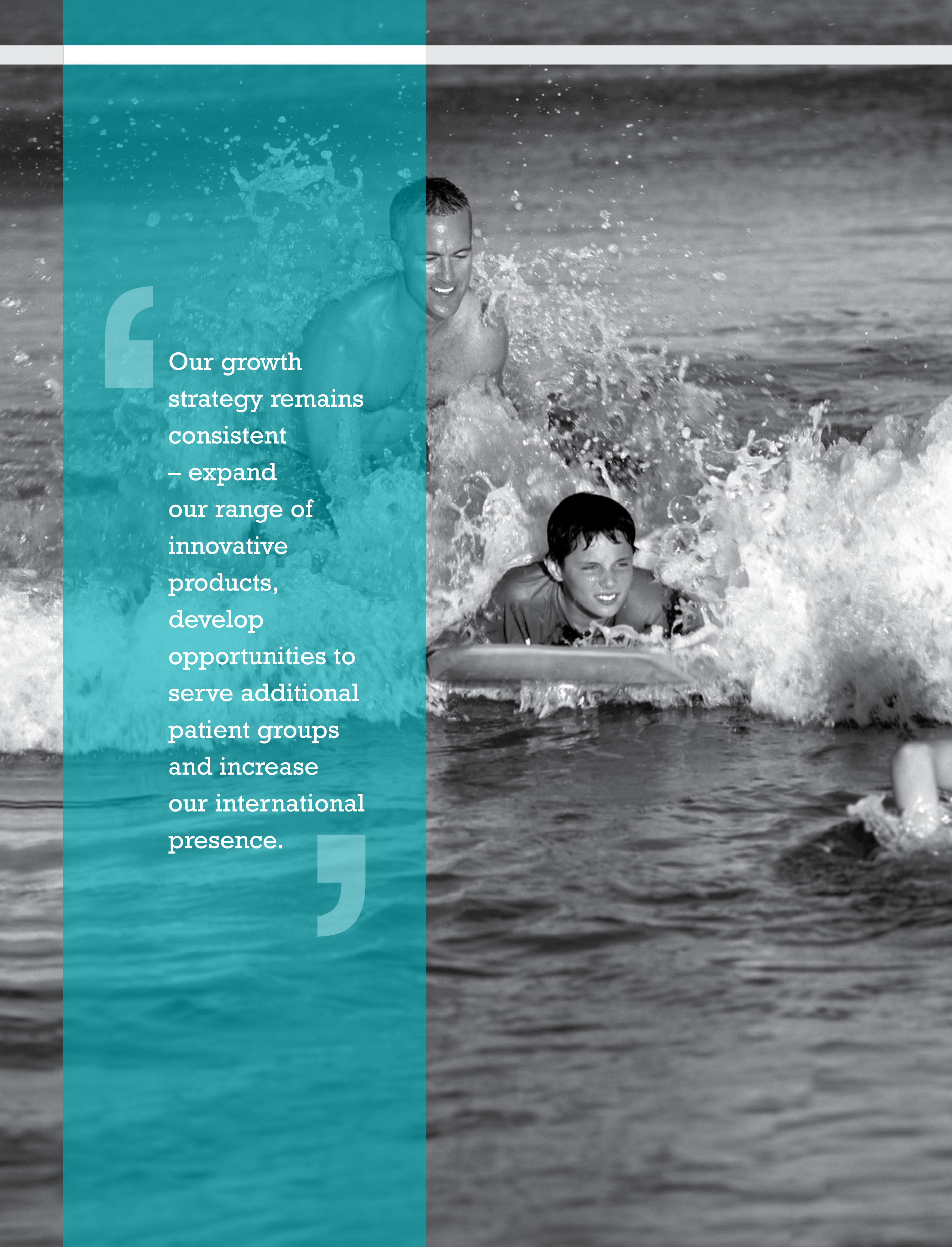


Interim Report 2008

Improving Care and Outcomes

Fisher & Paykel HEALTHCARE



"Our growth strategy remains consistent – expand our range of innovative products, develop opportunities to serve additional patient groups and increase our international presence."

Half Year Review

Around the world increasing numbers of hospitals, physicians, nurses, therapists and homecare providers are choosing our medical devices to assist with the treatment of their patients. Our growth strategy remains consistent – expand our range of innovative products, develop opportunities to serve additional patient groups and increase our international presence.

For the six months ended 30 September 2007, our progress demonstrated the success of that strategy, with significant new product introductions, strong investment in research and development, and expansion of our international sales activities.

The Company's financial statements for the six months ended 30 September 2007 and the comparative financial information for the period ended 30 September 2006 have been prepared under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The notes to the financial statements include reconciliations and discussion of differences between previous New Zealand GAAP and NZ IFRS.

Our operating revenue is generated in a wide variety of currencies, with our products sold in more than 110 countries. US dollars contributed 59% of operating revenue, Euros 23%, Australian dollars 8%, UK pounds 5%, New Zealand dollars 2%, and others 3%.

Since the previous financial year the New Zealand dollar has appreciated significantly, particularly in comparison to the United States dollar, averaging 0.74 against 0.63 for the prior comparable period. This resulted in our operating revenue in NZ dollar terms increasing only slightly to NZ$172.5 million for the six months. Expressed in US dollars, operating revenue grew an encouraging 18% to US$127.7 million, with good growth achieved by both our respiratory/acute care and obstructive sleep apnea product groups.

We achieved an operating profit of NZ$31.2 million compared to NZ$41.1 million for the first half last year. Profit after tax for the six months was NZ$18.7 million compared to NZ$26.3 million for the same period last year. The reductions reflect the effect of the much stronger NZ dollar and increased R&D, selling and operations expenses.

Your directors have approved an interim dividend for the financial year ending 31 March 2008 of NZD 5.4 cents per ordinary share (2007: 5.4 cents), carrying full imputation credit. Non-resident shareholders will receive a supplementary dividend of NZD 0.953 cents per share. The interim dividend will be paid on 14 December 2007, with a record date of 5 December, and an ex-dividend date of 29 November for the ASX and 6 December for the NZSX.

Operating Revenue by Product Group

US DOLLARS Six Months Ended 30 September				NZ DOLLARS Six Months Ended 30 September		
Percentage variation	2006 US$000	2007 US$000	Product Group	2007 NZ$000	2006 NZ$000	Percentage variation
+15%	55,743	64,090	Respiratory & acute care	86,533	88,207	-2%
+21%	49,479	59,766	Obstructive sleep apnea	80,814	78,327	+3%
+18%	105,222	123,856	Core products subtotal	167,347	166,534	+0%
+16%	3,319	3,847	Distributed and other	5,201	5,262	-1%
+18%	**$108,541**	**$127,703**	**Total operating revenue**	**$172,548**	**$171,796**	**+0%**

In August we announced the completion of our NZ$27.5 million share buyback programme. Since the initiation of this share buyback programme in March 2004 we have acquired 9,423,727 ordinary shares at an average price of NZ$2.92 per share.

RESPIRATORY & ACUTE CARE

Demand for our neonatal care products, which include infant warmers, bubble CPAP systems and resuscitators, was particularly strong in the first half. This, coupled with ongoing robust growth in respiratory humidification consumables, generated operating revenue of US$64.1 million for the six months, up 15% on the same period last year.

We continue to make encouraging progress in developing opportunities for our technologies to assist in the care of patients beyond our traditional intensive care market. These include patients requiring non-invasive ventilation, oxygen therapy, humidity therapy and laparoscopic or "keyhole" surgery.

OBSTRUCTIVE SLEEP APNEA

For our OSA product group, operating revenue grew 21% to US$59.8 million. Combined operating revenue from masks and flow generators increased 25% in US dollar terms over the same period last year.

Our growth was a result of increasing sales to a wide range of customers, both in the United States and other international markets.

Sales of our expanding range of masks continued to be an important driver of growth. Our latest addition, the Opus 360™ nasal pillows mask, has been well received by customers.

We exhibited our new SleepStyle™ auto-adjusting flow generator at the World Sleep 07 conference in Cairns, Australia. The new device is the first to include our unique SensAwake™ technology, which senses when the patient is awake and promptly reduces the delivered pressure to facilitate a return to sleep.

INTERNATIONAL SALES

North America generated 46% of our operating revenue for the half year, with Europe contributing 32% and Asia/Pacific and Other 22%. Our products are sold in more than 110 countries around the world.

We have continued to expand our sales, marketing and operations teams in North America, Europe, Asia and South America to increase our geographical coverage and to support ongoing growth. Early in the second half we began direct sales in Sweden and Denmark from a new office and warehouse established near Stockholm. We now have our own sales offices or sales support staff located in 26 countries.

> We continue to make encouraging progress in developing opportunities for our technologies to assist in the care of patients beyond our traditional intensive care market.

RESEARCH AND DEVELOPMENT

Investment in research and development continues to be fundamental to increasing our opportunities for growth and to ensuring that we can offer devices which can improve patient care and outcomes.

Our research and development expenditure grew 18% compared with the same period last year to NZ$11.5 million, representing 6.6% of operating revenue. We have already introduced significant new products this year and have a substantial new product pipeline under development. Over the next twelve months we expect to be introducing additional new masks, breathing system consumables and flow generators.

OUTLOOK

Our performance in the six months to 30 September 2007, coupled with the introduction of new products and growth in our international sales activities, gives us confidence that we can achieve continuing strong sales volume growth for the full year.

GARY PAYKEL
Chairman

MICHAEL DANIELL
Managing Director and
Chief Executive Officer

PRICEWATERHOUSECOOPERS

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Facsimile +64 9 355 8001

Accountants' Report

To the shareholders of Fisher & Paykel Healthcare Corporation Limited

We have reviewed the interim consolidated financial statements on pages 6 to 27. The interim consolidated financial statements provide information about the past financial performance and cash flows of the Group for the period ended 30 September 2007 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 10 to 16.

Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of the interim consolidated financial statements that present fairly the financial position of the Group as at 30 September 2007 and their financial performance and cash flows for the period ended on that date.

Independent Accountants' responsibilities

We are responsible for reviewing the interim consolidated financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim consolidated financial statements do not present fairly the matters to which they relate.

This report is made solely to the Company's shareholders, as a body, in accordance with our engagement terms. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an independent accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our review, for this report, or for the opinions we have formed.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the interim consolidated financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim consolidated financial statements of the Group for the period ended 30 September 2007 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as accountants conducting this review, auditors of the annual financial statements and providers of other assurance related services.

PRICEWATERHOUSECOOPERS

Accountants' Report
Fisher & Paykel Healthcare Corporation Limited

Review opinion

We have reviewed the financial performance and cash flows of the Group for the six month period ended 30 September 2007 and its financial position as at that date.

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements do not present fairly the financial position of the Group as at 30 September 2007 and their financial performance and cash flows for the period ended on that date.

Our review was completed on 22 November 2007 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants

Auckland

Unaudited Condensed Consolidated Income Statements

	Notes	Six Months Ended 30 September 2007 NZ$000	Six Months Ended 30 September 2006 NZ$000
Operating revenue	3	**172,548**	171,796
Cost of sales		**(80,068)**	(73,700)
Gross profit		**92,480**	98,096
Selling, general and administrative expenses		**(49,838)**	(47,299)
Research and development expenses		**(11,456)**	(9,702)
Operating profit		**31,186**	41,095
Financing income		**22**	448
Financing expense		**(2,242)**	(1,269)
Exchange gain on foreign currency borrowings		**798**	1,062
Net financing (expense) income		**(1,422)**	241
Profit before tax	4	**29,764**	41,336
Income tax expense	5	**(11,068)**	(15,075)
Profit after tax		**18,696**	26,261
Basic earnings per share		**3.7 cps**	5.1 cps
Diluted earnings per share		**3.6 cps**	5.0 cps
Weighted average basic shares outstanding		**510,032,719**	510,501,016
Weighted average diluted shares outstanding		**525,035,657**	523,732,382

Unaudited Condensed Consolidated Balance Sheets

	Notes	30 September 2007 NZ$000	30 September 2006 NZ$000	31 March 2007 NZ$000
ASSETS				
Current assets				
Cash and cash equivalents		**4,611**	4,361	7,742
Trade and other receivables	6	**58,570**	61,842	56,010
Inventories	7	**54,677**	40,006	46,697
Derivative financial instruments		**4,921**	2,658	3,943
Tax receivable		**6,424**	3,467	5,289
Total current assets		**129,203**	112,334	119,681
Non-current assets				
Property, plant and equipment		**188,249**	185,734	188,592
Intangible assets		**4,498**	4,504	4,475
Other receivables	6	**843**	918	953
Derivative financial instruments		**2,940**	1,582	2,623
Deferred tax asset		**7,641**	10,605	10,451
Total assets		**333,374**	315,677	326,775
LIABILITIES				
Current liabilities				
Interest-bearing liabilities	8	**80,841**	32,508	40,845
Trade and other payables	9	**37,298**	35,338	37,688
Provisions		**1,680**	1,055	1,408
Tax payable		**667**	836	757
Derivative financial instruments		**139**	354	197
Total current liabilities		**120,625**	70,091	80,895
Non-current liabilities				
Provisions		**490**	516	432
Other payables	9	**3,453**	7,895	8,901
Derivative financial instruments		**4**	71	-
Total liabilities		**124,572**	78,573	90,228
EQUITY				
Share capital		**3,819**	15,129	15,489
Retained earnings		**199,356**	220,047	216,686
Cash flow hedge reserve		**4,713**	1,714	3,761
Employee share entitlement reserve		**407**	223	318
Employee share option reserve		**2,208**	1,692	1,994
Treasury shares		**(1,701)**	(1,701)	(1,701)
Total equity		**208,802**	237,104	236,547
Total liabilities and equity		**333,374**	315,677	326,775

On behalf of the Board
22 November 2007

G A Paykel
Chairman

M G Daniell
Managing Director and
Chief Executive Officer

Unaudited Condensed Consolidated Statements of Changes in Equity

	Six Months Ended 30 September 2007 NZ$000	Six Months Ended 30 September 2006 NZ$000	Year Ended 31 March 2007 NZ$000
Total equity at beginning of the period	**236,547**	241,465	241,465
Movement in cash flow hedge reserve, net of tax	**952**	3,968	6,015
Profit after tax	**18,696**	26,261	50,504
Total recognised income and expense for the period	**19,648**	30,229	56,519
Dividends provided for or paid	**(35,775)**	(35,751)	(63,354)
Increase in equity from disposition of unallocated shares	**-**	45	44
Issue of share capital	**124**	1,113	1,352
Repurchase of share capital	**(12,252)**	-	-
Movement in employee share entitlement reserve	**89**	66	161
Movement in employee share option reserve	**214**	305	607
Movement in treasury shares	**-**	(498)	(498)
Share options issued for employee services	**186**	77	170
Employee share scheme shares issued for employee services	**21**	53	81
Total equity at end of the period	**208,802**	237,104	236,547

Unaudited Condensed Consolidated Statements of Cash Flows

	Notes	Six Months Ended 30 September 2007 NZ$000	Six Months Ended 30 September 2006 NZ$000	Year Ended 31 March 2007 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		**173,255**	167,395	347,667
Dividends received		**4**	-	2
Interest received		**24**	414	907
Payments to suppliers and employees		**(149,890)**	(130,840)	(264,091)
Taxation paid		**(7,068)**	(12,582)	(25,335)
Interest paid		**(2,184)**	(1,181)	(2,804)
Net cash flow from operations	15	**14,141**	23,206	56,346
CASH FLOWS (USED IN) INVESTING ACTIVITIES				
Sale of property, plant and equipment		**13**	-	87
Purchase of property, plant and equipment		**(7,019)**	(17,498)	(26,971)
Purchase of intangible assets		**(460)**	(1,085)	(1,735)
Sale of short-term investments		**-**	18,832	18,832
Purchase of short-term investments		**-**	(6,958)	(6,958)
Net cash flow (used in) investing activities		**(7,466)**	(6,709)	(16,745)
CASH FLOWS (USED IN) FINANCING ACTIVITIES				
Employee share purchase schemes		**271**	201	445
Issue of share capital		**124**	230	469
Repurchase of share capital		**(12,252)**	-	-
Disposition of unallocated employee share scheme shares		**-**	107	107
Short-term borrowings, net		**39,486**	8,100	19,514
Dividends paid		**(35,775)**	(35,751)	(63,354)
Supplementary dividends paid to overseas shareholders		**(2,719)**	(3,181)	(5,178)
Net cash flow (used in) financing activities		**(10,865)**	(30,294)	(47,997)
Net (decrease) in cash		**(4,190)**	(13,797)	(8,396)
Opening cash		**2,283**	11,048	11,048
Effect of foreign exchange rates		**(248)**	(25)	(369)
Closing cash		**(2,155)**	(2,774)	2,283
RECONCILIATION OF CLOSING CASH				
Cash and cash equivalents		**4,611**	4,361	7,742
Bank overdrafts	8	**(6,766)**	(7,135)	(5,459)
Closing cash		**(2,155)**	(2,774)	2,283

Notes to the Financial Statements

For the six months ended 30 September 2007

1. General Information

Fisher & Paykel Healthcare Corporation Limited ("Company" or "Parent") and its subsidiaries ("Group") is a leading designer and manufacturer of heated humidification products and systems for use in respiratory care and the treatment of obstructive sleep apnea. The Group also offers an innovative range of neonatal care products. Products are sold in over 110 countries worldwide.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 15 Maurice Paykel Place, East Tamaki, Auckland.

These consolidated financial statements were approved for issue by the board of directors on 22 November 2007.

2. Summary of Significant Accounting Policies

These interim financial statements have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting*. They do not include all the notes included in the full annual financial statements and are to be read with reference to the Annual Report for the year ended 31 March 2007. The financial statements for the six months ended 30 September 2007 and 30 September 2006 are unaudited. The comparative information for the year ended 31 March 2007 is audited.

The accounting policies used are compliant with NZ IFRS and will be used in the full year financial statements to 31 March 2008.

a. Basis of preparation of interim financial statements

The principal accounting policies adopted in the preparation of the financial report are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

Entities reporting

The financial statements are the Consolidated Financial Statements of the Group comprising the Company and its subsidiaries.

The Company and its subsidiaries are designated as profit oriented entities for financial reporting purposes. No separate Parent results are disclosed in the interim financial statements.

Statutory base

The Company is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The Company is also listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX). The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Application of NZ IFRS 1
First time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)

The Group's interim financial statements for the six months ended 30 September 2007 are the first financial statements that are prepared under NZ IFRS, specifically NZ IAS 34 and NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

The Company's transition date is 1 April 2006. The Group prepared its opening NZ IFRS balance sheet as at that date.

The reconciliations in Note 18 provide a quantification of the effect of the transition to NZ IFRS. The five reconciliations provide details of the impact of the transition on:

- profit for the six months ended 30 September 2006
- profit for the twelve months ended 31 March 2007
- equity at 1 April 2006 – Opening position
- equity at 30 September 2006
- equity at 31 March 2007

There are no material differences between the cash flow statements presented under NZ IFRS and the cash flow statements presented under the previous GAAP.

Historical cost convention

These interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the Income Statement.

Critical accounting estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The Directors regularly review all accounting policies and areas of judgement in presenting the financial statements.

Amounts have been rounded where necessary to the nearest thousand New Zealand dollars.

2. Summary of Significant Accounting Policies (continued)

b. Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 September 2007 and the results of all subsidiaries for the six months then ended.

Subsidiaries are all those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from 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 of 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.

Intercompany transactions and balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

c. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The Group is organised into one primary segment, being the design and manufacture of medical devices. The secondary segment is geographical where the Group is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

d. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's operations are measured using the currency of the primary economic environment in which the Company operates ("functional currency") as one integrated business, therefore one functional currency is used for all jurisdictions. The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using either the exchange rates prevailing at the dates of the transactions or at rates that approximate the actual exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

e. Revenue recognition

Revenue includes the fair value for the sale of products, net of Goods and Services Tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Products

Sales of products are recognised in accordance with the terms of sale when title has been transferred and the benefits of ownership and risk pass to the customer.

Financing income

Financing income is accounted for as earned.

Notes to the Financial Statements

For the six months ended 30 September 2007

2. Summary of Significant Accounting Policies (continued)

f. Goods and Services Tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced.

g. Income tax

The income tax expense or revenue for the period is the tax payable or receivable on the current period's taxable income based on the notional income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

h. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the period of the lease.

i. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

j. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

k. Trade receivables

Trade receivables are recognised initially at cost, less provision for doubtful debts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The movement in the amount of the provision is recognised in the Income Statement.

l. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of Significant Accounting Policies (continued)

m. Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

Authorised subsidiaries document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. These subsidiaries also document their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. Any ineffective portion is designated as a fair value hedge with the gain or loss recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled in the Income Statement in the period when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments may not qualify for hedge accounting or hedge accounting may not be adopted for certain derivative instruments. Changes in the fair value of these derivative instruments are recognised immediately in the Income Statement.

n. Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

o. Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

• Buildings – structure	25 - 50	years
• Buildings – fit-out and other	3 - 50	years
• Plant and equipment	3 - 15	years
• Vehicles	5	years
• Tooling	3 - 7	years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Notes to the Financial Statements

For the six months ended 30 September 2007

2. Summary of Significant Accounting Policies (continued)

o. Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are recognised in the Income Statement.

p. Intangible assets

Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of patents over their estimated useful lives. In the event of a patent being superseded, the unamortised costs are written off immediately to the Income Statement.

Software costs

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life of 3 to 10 years.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

q. Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

r. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provision for warranty covers the obligations for the unexpired warranty periods for products, based on recent historical costs incurred on warranty exposure. Currently warranty terms are 1 to 2 years for parts or parts and labour.

s. Share capital

Ordinary shares are classified as capital.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

t. Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

2. Summary of Significant Accounting Policies (continued)

t. Employee benefits (continued)

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Equity-settled share-based compensation

Employee Option Plans

The Employee Share Option Plans allow Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share options reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the options granted is measured using the Binomial Options Pricing Model, taking into account the terms and conditions upon which the options are granted. When options are exercised the amount in the employee share options reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital.

Employee Share Plans

The Employee Share Ownership Plans allow Group employees to acquire shares of the Company. The fair value of shares granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share entitlement reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the shares granted has been assessed as being equal to the discount provided on issue of the shares.

Interest-free loans are provided to employees in some jurisdictions to assist the employees to purchase the shares. The fair value of the interest-free loan is recognised as a financing expense in the Income Statement with a corresponding increase in the employee share entitlement reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the interest-free loan has been assessed by calculating the benefit provided to employees by discounting the payments on the loan at the estimated pre-tax financing rate of the employees.

Superannuation plans

Companies within the group contribute to defined benefit and defined contribution superannuation plans for the benefit of all employees. Defined benefit superannuation plans provide defined lump sum benefits based on years of service and final average salary. Defined contribution plans receive fixed contributions from the consolidated entity, and the consolidated entity's legal and constructive obligation is limited to these contributions.

Defined benefit

A liability or asset in respect of defined benefit superannuation plans is recognised in the Balance Sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund as at the reporting date, calculated by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with maturity and currency that match, as closely as possible, the estimated future cash outflows. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in retained earnings as incurred.

Past service costs are recognised immediately in income, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the entity and are part of the provision of the existing benefit obligation are taken into account in measuring the net liability or asset.

Defined contribution

Contributions to defined contribution superannuation plans are recognised as an expense in the Income Statement as they become payable.

u. Dividends

Provision is made for the amount of any dividend declared and approved on or before the balance date but not distributed at balance date.

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For the six months ended 30 September 2007

2. Summary of Significant Accounting Policies (continued)

v. Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during each period.

Diluted earnings per share is calculated by using the weighted average number of ordinary shares outstanding during each period, adjusted to include the potentially dilutive effect if securities or other contracts to issue ordinary shares were exercised or converted into shares.

w. Research and development

Research and development expenditure is expensed as it is incurred. Development costs of product innovation as a process are, in the main, indistinguishable as to whether the benefits will be applied to current or future products.

x. Government grants

The Company receives government research funding. Research grant receipts are netted off against relevant expenditure when it is incurred, with any excess funds received shown on the Balance Sheet as a current liability.

y. Statements of cash flows

The following are the definitions of the terms used in the Statement of Cash Flows:

(i) Cash comprises cash and bank balances.

(ii) Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and investments.

(iii) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid are included in financing activities.

(iv) Operating activities include all transactions and other events that are not investing or financing activities.

Cash flows from short-term borrowings are disclosed net, due to short-term maturities and the volume of transactions involved.

z. Group financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

	Six Months Ended 30 September 2007 NZ$000	30 September 2006 NZ$000
3. Operating Revenue		
Revenue before hedging:		
North America	**77,617**	83,172
Europe	**53,208**	50,642
Asia Pacific	**28,661**	28,201
Other	**7,957**	9,076
Total revenue before hedging	**167,443**	171,091
Foreign exchange gains on hedged sales	**5,105**	705
Total operating revenue	**172,548**	171,796
4. Expenses		
Profit before tax includes the following expenses:		
Depreciation	**6,533**	4,897
Amortisation:		
Patents and trademarks	**610**	476
Software	**317**	295
Total amortisation	**927**	771
Loss on disposal of property, plant and equipment	**146**	215
Employee benefits expense	**53,687**	48,178
Rental expense	**1,136**	892

5. Income Tax

The New Zealand corporate tax rate will change from 33% to 30% with effect from 1 April 2008 for the Group. This revised rate has not impacted the current tax payable or receivable for the period but will do so in future periods. However the change in tax rate has been taken into account in the measurement of deferred tax at the end of the period, with a consequent impact on income tax expense. The impact of this change is a reduction of $0.156 million in the deferred tax asset at 30 September 2007. Income tax expense for the six months ended 30 September 2007 is increased by $0.156 million to a total of $11.068 million.

	30 September 2007 NZ$000	30 September 2006 NZ$000	31 March 2007 NZ$000
6. Trade and Other Receivables			
CURRENT			
Trade receivables	**53,403**	56,523	53,648
Less allowance for doubtful trade receivables	**(765)**	(680)	(783)
	52,638	55,843	52,865
Other receivables	**5,932**	5,999	3,145
	58,570	61,842	56,010
NON-CURRENT			
Other receivables	**843**	918	953
	843	918	953
7. Inventories			
Materials	**14,169**	10,378	13,993
Finished products	**43,056**	32,403	35,704
Provision for obsolescence	**(2,548)**	(2,775)	(3,000)
	54,677	40,006	46,697
8. Interest-Bearing Liabilities			
Bank overdrafts	**6,766**	7,135	5,459
Borrowings	**74,075**	25,373	35,386
	80,841	32,508	40,845
9. Trade and Other Payables			
CURRENT			
Trade payables	**15,945**	17,215	15,907
Employee entitlements	**12,985**	11,112	10,339
Other payables and accruals	**8,368**	7,011	11,442
	37,298	35,338	37,688
NON-CURRENT			
Employee entitlements	**2,837**	7,291	8,297
Other payables and accruals	**616**	604	604
	3,453	7,895	8,901

Notes to the Financial Statements

For the six months ended 30 September 2007

10. Related Party Transactions

During the period the Group has not entered into any material contracts involving related parties or directors' interests. No amounts owed by related parties have been written off or forgiven during the period.

During the period the Company advanced and repaid loans to its subsidiaries by way of internal current accounts. In presenting the financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the Parent have been eliminated. All transactions with related parties were in the normal course of business and provided on commercial terms.

The following Directors received directors fees and dividends in relation to shares in which they had a beneficial interest as detailed below:

	Six Months Ended 30 September 2007		Six Months Ended 30 September 2006	
	Directors fees NZ$000	Dividends NZ$000	Directors fees NZ$000	Dividends NZ$000
Non-executive directors				
Adrienne Clarke	**40**	**4**	36	4
Sir Colin Maiden	**47**	**4**	43	4
Gary Paykel	**78**	**177**	70	177
Nigel Evans	**43**	**2**	39	2
Michael Smith	**65**	**14**	59	14
Lindsay Gillanders	**35**	**36**	31	36
Executive director				
Michael Daniell	**-**	**51**	-	51

	30 September 2007 NZ$000	30 September 2006 NZ$000	31 March 2007 NZ$000
11. Capital Expenditure Commitments			
Capital expenditure commitments contracted for but not recognised as at the reporting date:	**1,861**	3,645	1,957
12. Operating Lease Commitments			
Gross commitments under non-cancellable operating leases for the Group:			
Within one year	**3,073**	2,345	3,473
Between one and two years	**2,448**	1,732	2,537
Between two and three years	**1,727**	1,010	1,781
Between three and four years	**1,278**	328	1,026
Between four and five years	**497**	-	1,054
Over five years			
	9,023	5,415	9,871

Operating lease commitments relate mainly to occupancy leasing of buildings.

13. Contingent Liabilities

Periodically we are a party to litigation including product liability and patent claims. To date such claims have been few in number and have been expensed or covered by our insurance. The Directors are unaware of the existence of any claim or other contingencies that would have a material impact on the operations of the Group.

The Parent has a contingent liability relating to guarantees of subsidiary company indebtedness.

Contingent liabilities under contracts, guarantees and other agreements arising in the ordinary course of business on which no loss is anticipated are as follows:

	30 September 2007 NZ$000	30 September 2006 NZ$000	31 March 2007 NZ$000
Letters of credit	**20,619**	23,111	21,469

14. Property, Plant and Equipment

	Six Months Ended 30 September 2007 NZ$000	Six Months Ended 30 September 2006 NZ$000	Year Ended 31 March 2007 NZ$000
Acquisition of property, plant and equipment	**7,019**	17,498	26,971
Disposals of property, plant and equipment	**13**	-	87

15. Cash Flow Reconciliations

	Six Months Ended 30 September 2007 NZ$000	Six Months Ended 30 September 2006 NZ$000
Profit after tax	**18,696**	26,261
Add (deduct) non-cash items:		
Depreciation and writedown of property, plant and equipment to recoverable amount	**6,679**	5,112
Amortisation of intangibles	**927**	771
Accrued financing income / expense	**(33)**	(8)
Movement in provisions	**330**	(105)
Movement in deferred taxation	**2,354**	(715)
Movement in working capital:		
Trade and other payables	**(5,705)**	314
Trade and other receivables	**(2,621)**	(8,694)
Inventory	**(7,980)**	(4,991)
Provision for taxation net of supplementary dividend paid	**1,494**	5,261
Net cash flow from operations	**14,141**	23,206

Notes to the Financial Statements

For the six months ended 30 September 2007

16. Financial Instruments

MANAGEMENT POLICIES

Through its importing and exporting activities the Group generates a number of foreign currency exposures. General policy is to monitor current and anticipated foreign currency trading cash flows, and advice is taken on likely foreign currency rate trends. The Group enters into foreign currency option contracts and forward foreign currency contracts in managing its foreign exchange risk.

The purpose of the Group's foreign currency hedging activities is to protect the Group from exchange rate volatility with respect to New Zealand dollar net cash movements resulting from the sale of products in foreign currencies to foreign customers, and the purchase of raw materials in foreign currencies from foreign and domestic suppliers. The Group enters into foreign currency option contracts and forward foreign currency contracts within prescribed policy parameters to hedge anticipated sales or costs denominated principally in US dollars, Euros, British pounds, Australian dollars, Japanese Yen and Canadian dollars.

The terms of the foreign currency option contracts and the forward foreign currency contracts generally do not exceed five years. However, with Board approval, the foreign currency option contracts and the forward foreign currency contracts may have terms of up to ten years.

Notional principal amounts of forward exchange and option contracts outstanding were as follows:

		NZ Dollars	
	30 September 2007 NZ$000	30 September 2006 NZ$000	31 March 2007 NZ$000
Purchase commitments forward exchange contracts	**1,414**	2,379	1,893
Sale commitments forward exchange contracts	**88,230**	53,186	53,810
Put option contracts purchased	**84,732**	104,657	104,529
Call option contracts sold	**21,405**	46,907	32,668

Foreign currency principal amounts of sale commitments forward exchange contracts and put option contracts purchased were as follows:

		Foreign Currency	
	30 September 2007 000s	30 September 2006 000s	31 March 2007 000s
USD	**US$61,000**	US$55,000	US$60,000
EUR	**€31,910**	€24,285	€25,530
GBP	**£2,785**	£2,520	£2,345
AUD	**A$5,300**	A$4,100	A$3,580
CAD	**C$7,325**	C$7,950	C$6,875

Foreign currency principal amounts of purchase commitments forward exchange contracts were as follows:

EUR	**€0**	€175	€180
JPY	**¥110,000**	¥144,000	¥110,000

17. Segments

a. Primary segment - business

The Company operates in one business segment, being the design and manufacture of medical devices.

b. Secondary segment - geographical

A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

	Operating revenue Six months ended		Total assets As at		Capital expenditure Six months ended	
	30 Sep 07 NZ$000	30 Sep 06 NZ$000	30 Sep 07 NZ$000	30 Sep 06 NZ$000	30 Sep 07 NZ$000	30 Sep 06 NZ$000
Segment:						
North America	**80,236**	83,537	**45,106**	44,404	**130**	89
Europe	**54,921**	50,867	**30,279**	30,468	**148**	114
Asia Pacific	**29,160**	28,249	**257,943**	240,769	**6,709**	17,293
Other	**8,231**	9,143	**46**	36	**32**	2
	172,548	171,796	**333,374**	315,677	**7,019**	17,498

In presenting the information on geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

18. Explanation of Transition to New Zealand IFRS

1. Reconciliation of previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to New Zealand Equivalents to IFRS (NZ IFRS)

(a) At the date of transition to NZ IFRS: 1 April 2006

	Notes	Previous NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000
ASSETS				
Current assets				
Cash and cash equivalents		16,554	-	**16,554**
Short-term investments		12,000	-	**12,000**
Trade and other receivables	b	54,310	(621)	**53,689**
Inventories	a	36,190	(1,175)	**35,015**
Employee share ownership plans loans	c	354	(354)	**-**
Derivative financial instruments	b	-	979	**979**
Tax receivable		5,228	-	**5,228**
Total current assets		124,636	(1,171)	**123,465**
Non-current assets				
Property, plant and equipment	f,g	128,296	47,037	**175,333**
Intangible assets	f	3,285	884	**4,169**
Other receivables		703	-	**703**
Employee share ownership plans loans	c	261	(261)	**-**
Deferred taxation	d	10,289	1,555	**11,844**
Total assets		267,470	48,044	**315,514**
LIABILITIES				
Current liabilities				
Interest-bearing liabilities		23,841	-	**23,841**
Trade and other payables	c,e	36,839	754	**37,593**
Provisions		1,144	-	**1,144**
Tax payable		517	-	**517**
Derivative financial instruments	b	-	3,061	**3,061**
Total current liabilities		62,341	3,815	**66,156**
Non-current liabilities				
Provisions		532	-	**532**
Other payables	c,e	604	6,653	**7,257**
Derivative financial instruments	b	-	104	**104**
Total liabilities		63,477	10,572	**74,049**
EQUITY				
Share capital		13,886	-	**13,886**
Retained earnings	a,c,d,e,g	190,353	39,139	**229,492**
Reserves	a,b,c	(246)	(464)	**(710)**
Treasury shares	c	-	(1,203)	**(1,203)**
Total equity		203,993	37,472	**241,465**
Total liabilities and equity		267,470	48,044	**315,514**

Notes to the Financial Statements

For the six months ended 30 September 2007

18. Explanation of Transition to New Zealand IFRS (continued)

1. Reconciliation of previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to New Zealand Equivalents to IFRS (NZ IFRS) (continued)

(b) At the end of the last half year reporting period under previous NZ GAAP: 30 September 2006

	Notes	Previous NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000
ASSETS				
Current assets				
Cash and cash equivalents		4,361	-	**4,361**
Trade and other receivables	b	62,085	(243)	**61,842**
Inventories	a	41,054	(1,048)	**40,006**
Employee share ownership plans loans	c	560	(560)	**-**
Derivative financial instruments	b	-	2,658	**2,658**
Tax receivable		3,467	-	**3,467**
Total current assets		111,527	807	**112,334**
Non-current assets				
Property, plant and equipment	f,g	138,993	46,741	**185,734**
Intangible assets	f	3,132	1,372	**4,504**
Other receivables		918	-	**918**
Employee share ownership plans loans	c	675	(675)	**-**
Derivative financial instruments	b	-	1,582	**1,582**
Deferred taxation	d	10,179	426	**10,605**
Total assets		265,424	50,253	**315,677**
LIABILITIES				
Current liabilities				
Interest-bearing liabilities		32,508	-	**32,508**
Trade and other payables	c,e	34,629	709	**35,338**
Provisions		1,055	-	**1,055**
Tax payable		836	-	**836**
Derivative financial instruments	b	-	354	**354**
Total current liabilities		69,028	1,063	**70,091**
Non-current liabilities				
Provisions		516	-	**516**
Other payables	c,e	604	7,291	**7,895**
Derivative financial instruments	b	-	71	**71**
Total liabilities		70,148	8,425	**78,573**
EQUITY				
Share capital	c	13,886	1,243	**15,129**
Retained earnings	a,c,d,e,g	185,466	34,581	**220,047**
Reserves	a,b,c	(4,076)	7,705	**3,629**
Treasury shares	c	-	(1,701)	**(1,701)**
Total equity		195,276	41,828	**237,104**
Total liabilities and equity		265,424	50,253	**315,677**

18. Explanation of Transition to New Zealand IFRS (continued)

1. Reconciliation of previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to New Zealand Equivalents to IFRS (NZ IFRS) (continued)

(c) At the end of the last reporting period under previous NZ GAAP: 31 March 2007

	Notes	Previous NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000
ASSETS				
Current assets				
Cash and cash equivalents		7,742	-	**7,742**
Trade and other receivables	b	57,838	(1,828)	**56,010**
Inventories		46,697	-	**46,697**
Employee share ownership plans loans	c	614	(614)	**-**
Derivative financial instruments	b	-	3,943	**3,943**
Tax receivable		5,289	-	**5,289**
Total current assets		118,180	1,501	**119,681**
Non-current assets				
Property, plant and equipment	f,g	141,885	46,707	**188,592**
Intangible assets	f	2,876	1,599	**4,475**
Other receivables		953	-	**953**
Employee share ownership plans loans	c	435	(435)	**-**
Derivative financial instruments	b	-	2,623	**2,623**
Deferred taxation	d	10,338	113	**10,451**
Total assets		274,667	52,108	**326,775**
LIABILITIES				
Current liabilities				
Interest-bearing liabilities		40,845	-	**40,845**
Trade and other payables	c,e	37,107	581	**37,688**
Provisions		1,408	-	**1,408**
Tax payable		757	-	**757**
Derivative financial instruments	b	-	197	**197**
Total current liabilities		80,117	778	**80,895**
Non-current liabilities				
Provisions		432	-	**432**
Other payables	c,e	604	8,297	**8,901**
Total liabilities		81,153	9,075	**90,228**
EQUITY				
Share capital	c	13,886	1,603	**15,489**
Retained earnings	a,c,d,e,g	186,000	30,686	**216,686**
Reserves	a,b,c	(6,372)	12,445	**6,073**
Treasury shares	c	-	(1,701)	**(1,701)**
Total equity		193,514	43,033	**236,547**
Total liabilities and equity		274,667	52,108	**326,775**

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18. Explanation of Transition to New Zealand IFRS (continued)

2. Reconciliation of profit under previous NZ GAAP to profit under New Zealand Equivalents to IFRS (NZ IFRS)

(a) Reconciliation of profit for the half year ended 30 September 2006

	Notes	Pevious NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000
Revenue before hedging	a	173,135	(2,044)	**171,091**
Foreign exchange gains on hedged sales	a,b	2,582	(1,877)	**705**
Total operating revenue		175,717	(3,921)	**171,796**
Cost of sales	c,e	(73,138)	(562)	**(73,700)**
Gross profit		102,579	(4,483)	**98,096**
Selling, general and administrative expenses	c,e,f	(47,058)	(241)	**(47,299)**
Research and development expenses	c,e	(9,458)	(244)	**(9,702)**
Operating profit		46,063	(4,968)	**41,095**
Financing income		448	-	**448**
Financing expense	c	(1,240)	(29)	**(1,269)**
Exchange gain (loss) on foreign currency borrowings	a	-	1,062	**1,062**
Net financing (expense) income		(792)	1,033	**241**
Profit before tax		45,271	(3,935)	**41,336**
Income tax expense	d	(15,565)	490	**(15,075)**
Profit after tax		29,706	(3,445)	**26,261**

18. Explanation of Transition to New Zealand IFRS (continued)

2. Reconciliation of profit under previous NZ GAAP to profit under New Zealand Equivalents to IFRS (NZ IFRS)

(b) Reconciliation of profit for the year ended 31 March 2007

	Notes	Previous NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000
Revenue before hedging	a	347,931	(4,953)	**342,978**
Foreign exchange gains on hedged sales	a,b	8,534	(4,355)	**4,179**
Total operating revenue		356,465	(9,308)	**347,157**
Cost of sales	c,e	(150,918)	(380)	**(151,298)**
Gross profit		205,547	(9,688)	**195,859**
Selling, general and administrative expenses	c,e,f	(95,769)	(140)	**(95,909)**
Research and development expenses	c,e	(20,175)	(493)	**(20,668)**
Operating profit		89,603	(10,321)	**79,282**
Financing income		824	-	**824**
Financing expense	c	(2,886)	(63)	**(2,949)**
Exchange gain (loss) on foreign currency borrowings	a	-	2,462	**2,462**
Net financing (expense) income		(2,062)	2,399	**337**
Profit before tax		87,541	(7,922)	**79,619**
Income tax expense	d	(29,936)	821	**(29,115)**
Profit after tax		57,605	(7,101)	**50,504**

Notes to the Financial Statements

For the six months ended 30 September 2007

18. Explanation of Transition to New Zealand IFRS (continued)

3. Notes to the reconciliations

a. Functional currency

Under NZ IFRS the functional currency of the Parent and all subsidiaries is New Zealand dollars as all operations are fully integrated operations.

Previously exchange rate differences on translation of the assets and liabilities of overseas-based subsidiaries were passed through the Currency Translation Reserve ("CTR"). Included in the CTR were balances relating to exchange rate translation differences on intercompany transfers of inventory. The Group has elected to apply the exemption in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. At the date of transition to NZ IFRS the CTR is deemed to be zero.

From 1 April 2006 the functional currency of the foreign operations is New Zealand dollars and all transactions entered into by the foreign operations are accounted for as if they had been entered into by the New Zealand entities. The effects of this on the transition reconciliation financial statements are:

- the previous NZ GAAP movements in the CTR for the half year and year ended 30 September 2006 and 31 March 2007 respectively are allocated to the appropriate lines of the NZ IFRS Income Statement depending on the nature of each item. This results in a reduction of profit after tax in the six months ended 30 September 2006 and year ended 31 March 2007 of $1.2m and $2.8m respectively.
- the exchange rate translation differences on intercompany inventory transfers which were held within CTR at 30 September 2006 and 31 March 2007 are removed from the CTR under NZ IFRS and allocated to the Income Statement in the immediately prior periods. This results in a reduction of profit before tax in the six months ended 30 September 2006 and year ended 31 March 2007 of $2.5m and $2.2m respectively.
- other Balance Sheet amounts relating to CTR components are removed or adjusted as appropriate.

b. Hedge accounting

In accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement* all derivatives have been recognised at fair value on the Balance Sheet. All foreign exchange instruments have been documented and accounted for as cash flow hedges.

Previously hedging was undertaken on a net sales/costs basis with the hedged item being the cashflow resulting from intercompany sales less the New Zealand based foreign currency costs. Under NZ IFRS the hedged item is external sales.

The change has three effects:

- there is a change in the timing of the recognition of differences in the hedge rate versus the underlying transaction rate which causes a reallocation of exchange rate differences between periods. The effect on the six months ended 30 September 2006 is nil, and for the year ended 31 March 2007 there is a reduction in profit before tax of $1.5m.
- there is a change to the allocation of exchange rate differences in the Income Statement within each period caused by the change from hedging net intercompany sales to external sales.
- foreign currency option premium amounts are included within the fair value of derivatives on the Balance Sheet.

c. Share-based remuneration and employee share schemes

The Company issues share options to selected employees as a form of equity-based compensation. NZ IFRS requires the recognition of a compensatory expense in respect of these share options. For the six months ended 30 September 2006 and year ended 31 March 2007 a compensatory expense in relation to share options issued to employees of $0.4m and $0.8m respectively has been recognised.

The Company also issues shares under the Employee Share Ownership Plan (ESOP) to employees in New Zealand and Australia. The shares are usually offered to employees at a discount of 20% of the market price at the time of issue. NZ IFRS requires the recognition of a compensatory expense based on the amortisation over the relevant vesting period of the fair value of the discount on shares issued by the ESOP. For the six months ended 30 September 2006 and year ended 31 March 2007 a compensatory expense in relation to ESOPs, including a charge to interest expense, of $0.1m and $0.2m respectively has been recognised.

At transition to NZ IFRS, under NZ IAS 32 *Financial Instruments: Presentation* and NZ SIC-12 *Consolidation – Special Purpose Entities* the Company has recorded shares held by the trustee of the Fisher & Paykel Healthcare Share Purchase Plan as treasury shares. When shares vest, are reissued or otherwise disposed of, any consideration received is included in the Group's contributed capital. This results in an adjustment of $1.2m at transition between share capital and treasury shares, and further small adjustments at 30 September 2006 and 31 March 2007.

The Company also issues shares under the Employee Stock Purchase Plan (ESPP) to employees in North America. The shares are purchased by qualifying employees from payroll deductions at a discount of 15% of the lower of the market price at the time of issue and the market price at the beginning of the annual offering period. NZ IFRS requires the Company to determine the fair value of all the ESPP benefit and to amortise the expenses over the relevant vesting periods. For the six months ended 30 September 2006 and year ended 31 March 2007 a compensatory expense in relation to ESPPs of $0.0m and $0.1m respectively has been recognised.

18. Explanation of Transition to New Zealand IFRS (continued)

3. Notes to the reconciliations

d. Taxation

Under NZ IFRS deferred tax is calculated using a "balance sheet" approach, which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of Balance Sheet items rather than the accounting and tax values recognised in the Income Statement. Under previous NZ GAAP depreciation on buildings structure was treated as a permanent difference whereas under NZ IFRS this becomes a temporary difference. In addition several of the NZ IFRS adjustments have a deferred tax impact.

The effect on the deferred tax asset of the adoption of NZ IFRS is an increase of $1.0m, with reductions of $0.0m and $0.9m at 30 September 2006 and 31 March 2007 respectively. As a result of adopting NZ IFRS for the six months ended 30 September 2006 and year ended 31 March 2007 a reduction in tax expense of $0.6m and $0.7m respectively has been recognised.

e. Employee benefits

Under previous NZ GAAP long service leave liability was recognised when the long-service leave was fully vested. In accordance with NZ IAS 19 *Employee Benefits* a provision for long service leave has been calculated using an actuarial technique from the employees' commencement date to the extent that it is probable that the leave will vest. The effect of recognising long service leave liability in accordance with NZ IFRS resulted in an increase in liabilities of $2.2m at 1 April 2006 and an expense of $0.3m and $0.6m for the six months and twelve months ended 30 September 2006 and 31 March 2007 respectively.

Companies within the Group contribute to pension plans for employees. The majority of employees are members of defined contribution plans. Under previous NZ GAAP contributions to the plans were expensed when made, which is consistent with NZ IFRS. A company within the Group also operates a defined benefit plan for a small number of employees. The Group has elected to apply the exemption available in NZ IFRS1 and has recognised cumulative actuarial gains and losses at 1 April 2006. The Group has recognised the deficit of the defined benefit plan as a liability of $4.6m in the Balance Sheet as at 1 April 2006 and has recorded an expense in relation to defined benefit superannuation of $0.4m and $0.8m for the six months and twelve months ended 30 September 2006 and 31 March 2007 respectively.

In accordance with NZ IAS 19 a provision for sick leave has been established for employees with entitlements in excess of one year, where there is likelihood that the entitlement will be taken.

f. Intangible assets

Under NZ IFRS goodwill is not required to be amortised but is required to be regularly reviewed for impairment, according to strict tests, and any loss in value is recognised as an expense at the time the loss in value is identified. As a result, the goodwill amortisation charge was written back at 30 September 2006 and 31 March 2007. The carrying amount of goodwill has increased by $0.2m at 30 September 2006 and $0.4m at 31 March 2007, with a consequent increase in profit before tax of $0.2m and $0.4m for the six months ended 30 September 2006 and year ended 31 March 2007 respectively.

Software assets have been reclassified as intangibles to comply with NZ IAS 38 *Intangible Assets*.

g. Fair value as deemed cost

A company within the Group has identified one asset that has a fair value significantly different to the historical cost recorded under current NZ GAAP, being land owned at East Tamaki in Auckland . The Company has elected to apply the exemption available in NZ IFRS 1 to measure land at the date of transition to NZ IFRS at its fair value and use that value as its deemed cost.

Based upon an independent valuation carried out by DTZ New Zealand in March 2006 the fair value of this land was $59.2 million. This valuation compares to a historical cost value comprising the purchase price and subsequent improvements of $11.3 million. This results in an increase in the deemed cost of land within Property, Plant and Equipment of $47.9m and a corresponding increase in retained earnings.

GROUP STRUCTURE

*** FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED OWNS:**
* Fisher & Paykel Healthcare Limited (NZ)
* Fisher & Paykel Healthcare Pty Limited (Australia)
* Fisher & Paykel Healthcare Treasury Limited (NZ)
Fisher & Paykel Healthcare Limited (UK)
Fisher & Paykel Holdings Inc. (USA)
Fisher & Paykel Healthcare K.K. (Japan)
Fisher & Paykel do Brasil Ltda (Brazil)
Fisher & Paykel (Guangzhou) Limited (China)
Fisher & Paykel Healthcare Asia Limited (NZ)
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited (NZ)

** COMPANIES OPERATING UNDER A NEGATIVE PLEDGE AGREEMENT*

FISHER & PAYKEL HEALTHCARE LIMITED (NZ) OWNS:
* Fisher & Paykel Healthcare Properties Limited (NZ)

FISHER & PAYKEL HOLDINGS INC. (USA) OWNS:
Fisher & Paykel Healthcare Inc. (USA)

FISHER & PAYKEL HEALTHCARE LIMITED (UK) OWNS:
Fisher & Paykel Healthcare SAS (France)
Fisher & Paykel Holdings GmbH (Germany)
Fisher & Paykel Healthcare AB (Sweden)

FISHER & PAYKEL HOLDINGS GMBH (GERMANY) OWNS:
Fisher & Paykel Healthcare GmbH & Co KG (Germany)

ALL COMPANIES ARE WHOLLY OWNED

DIRECTORS' DETAILS

The Directors of Fisher & Paykel Healthcare Corporation Limited at any time during or since the end of the year are as follows:

Gary Albert Paykel	Chairman, Non-Executive, Independent
Michael Grenfell Daniell	Managing Director and Chief Executive Officer
Philip Michael Smith	Deputy Chairman, Non-Executive, Independent
Prof. Adrienne Elizabeth Clarke	Non-Executive, Independent
Sir Colin James Maiden	Non-Executive, Independent
Dr. Nigel Thomas Evans	Non-Executive, Independent
William Lindsay Gillanders	Non-Executive

During the twelve months to 30 September 2007:

At the Annual Meeting of Shareholders held on 23 August 2007 Professor Clarke and Dr Evans retired by rotation in accordance with the Company's constitution and were re-elected to the Board.

EXECUTIVES' DETAILS

Michael Daniell, *Managing Director and Chief Executive Officer*

Senior Management
Lewis Gradon, *Senior Vice-President – Research and Development*
Paul Shearer, *Senior Vice-President – Sales and Marketing*
Tony Barclay, *Chief Financial Officer and Company Secretary*

DIRECTORY

The details of the Company's principal administrative and registered office in New Zealand are:

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Facsimile: +64-9-574 0158

Postal Address
PO Box 14348, Panmure, Auckland, New Zealand

Internet Address
www.fphcare.co.nz

Email Address
investor@fphcare.co.nz

The details of the Company's registered office in Australia are:

36-40 New Street, Ringwood, Victoria 3134, Australia
Telephone: +61-3-9879 5022
Facsimile: +61-3-9879 5232

Postal Address
PO Box 167, Ringwood, Victoria 3134, Australia

Share Registry

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Investor Enquiries: +64-9-488 8777
Internet address: www.computershare.co.nz
Email: enquiry@computershare.co.nz

In Australia:
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Level 4, 60 Carrington Street, Sydney, NSW 2000

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Facsimile: +61-2-8234 5050
Investor Enquiries: 1 300 855 080
(for use within Australia only)
Internet address: www.computershare.com.au
Email: sydney.services@computershare.com.au

Stock Exchanges

The Company's ordinary shares are listed on the NZSX and the ASX.

Incorporation

The Company was incorporated in Auckland, New Zealand.

Fisher & Paykel
HEALTHCARE