Fisher & Paykel
HEALTHCARE

FISHER & PAYKEL HEALTHCARE
CORPORATION LIMITED

INFORMATION MEMORANDUM

for shareholders of

Fisher & Paykel Industries Limited

THIS IS AN IMPORTANT DOCUMENT

If you are in any doubt as to how to deal with this document please immediately consult the Organising Broker, a member of the NZSE, your lawyer, accountant or other financial adviser.

This document, together with the other materials you have received in this package, will assist you to decide whether to approve the Separation Arrangement proposed by Fisher & Paykel Industries Limited

Interpretation

In this Information Memorandum references to "Fisher & Paykel Healthcare", the "Company", or the "healthcare business", with respect to periods prior to completion of the Separation Arrangement are references only to the healthcare business of Fisher & Paykel Industries Limited and, with respect to periods after the completion of the Separation Arrangement, are references to Fisher & Paykel Industries Limited whose only remaining business, after completion of the Separation Arrangement, will be its existing healthcare business. Fisher & Paykel Industries Limited will change its name to Fisher & Paykel Healthcare Corporation Limited just prior to completion of the Separation Arrangement. In this Information Memorandum references to "Fisher & Paykel Industries" are references to Fisher & Paykel Industries Limited for periods prior to the completion of the Separation Arrangement during which that company will own and operate the appliances and finance businesses and the healthcare business.

Portions of this Information Memorandum are derived from a prospectus to be registered with the U.S. Securities and Exchange Commission pursuant to which shares in Fisher & Paykel Healthcare Corporation Limited will be offered to investors in the U.S. These portions, in particular the sections entitled "Business description" and "Risk factors", are written in a manner which reflects disclosure standards and practices for prospectuses distributed in the U.S.

Other Information

Detailed information regarding the Separation Arrangement is set out in the Fisher & Paykel Industries Limited Notice of Annual Shareholders Meeting dated 13 September 2001 (**Notice of Annual Shareholders Meeting**).

Detailed information regarding Fisher & Paykel Appliances Holdings Limited is set out in the Information Memorandum dated 13 September 2001.

Highlights

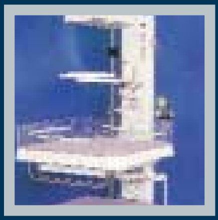
In December 2000 the Board of Fisher & Paykel Industries Limited announced its intention to separate its healthcare business and its appliances and finance businesses into two listed companies, namely:

- Fisher & Paykel Healthcare Corporation Limited; and
- Fisher & Paykel Appliances Holdings Limited.

As a result of the Separation Arrangement, Fisher & Paykel Healthcare Corporation Limited will own and operate the healthcare business.

The healthcare business has a number of attractive features including:

- **Leading market position.** The Healthcare business believes it is the leading designer, manufacturer and marketer of heated humidifiers for use in respiratory care and the treatment of obstructive sleep apnea.
- **Strong financial performance.** For the year ended 31 March 2001 its operating revenue was $193.1 million and operating profit before abnormals was $79.8 million. Its operating profit before abnormals has had a compound growth rate of 40.9 percent for the five year period to 31 March 2001.
- **Attractive growth prospects.** It is committed to using its expertise in humidification to improve and expand its existing product range and to develop new medical applications for its technologies.
- **A global distribution network.** The healthcare business sells its products in over 90 countries worldwide. It has an international network of distributors and has established sales offices in the U.S., the United Kingdom, France, Germany, Australia and New Zealand.
- **An experienced management team.** The members of its management team have an average of 15 years' experience with the healthcare business, a commitment to its products and long-standing industry relationships with its customers and external clinicians.



Timetable

The following timetable sets out key dates in relation to the Separation Arrangement. For a more detailed explanation of the Separation Arrangement refer to the Notice of Annual Shareholders Meeting which accompanies this Information Memorandum.

(New Zealand dates and times unless otherwise specified.)

27 August 2001	Initial Court Orders received.
5.00pm 28 September 2001	Record date for voting entitlements for the Annual Shareholders Meeting.
2.00pm 6 October 2001	Latest time for lodging proxies.
2.00pm 8 October 2001	Annual Shareholders Meeting.
5.00pm 15 October 2001	Latest time for shareholders filing notice of appearance or notice of opposition required if they wish to appear and be heard at the final Court hearing.
10.00am 23 October 2001	Final Court hearing and receipt of the Final Court Orders.

Beyond 23 October 2001, these dates and times may change and, among other things, are subject to Court approval, the Record Date being fixed as anticipated at 9 November 2001 and satisfaction of the conditions to the Separation Arrangement.

9 November 2001	Anticipated Record Date for the determination of entitlements in relation to the Separation Arrangement.
13 November 2001 (New York time)	Quotation of Fisher & Paykel Healthcare Corporation Limited ADSs commences on a "when issued basis"* on the Nasdaq.
14 November 2001	Quotation and trading of Fisher & Paykel Appliances Holdings Limited shares and Fisher & Paykel Healthcare Corporation Limited shares commences on a "conditional delayed delivery basis"* on the NZSE.
16 November 2001	Completion of the Separation Arrangement (including completion of the U.S. Healthcare Offer).**
16 November 2001	Date for mailing of cash payment and share statements to Fisher & Paykel Industries Limited shareholders.

* An explanation of the terms "when issued basis" and "conditional delayed delivery basis" is set out in "Stock Exchange listings" on page 17 of the Notice of Annual Shareholders Meeting. The "conditional delayed delivery" designation will cease to apply to trades made on the NZSE after completion of the Separation Arrangement – anticipated to be 16 November 2001.

** Subject to the ASX approving the application, it is expected that Fisher & Paykel Healthcare Corporation Limited shares will be quoted for trading by the ASX within 7 days of completion of the Separation Arrangement.

Directors and Management

Directors

Following completion of the Separation Arrangement, Fisher & Paykel Healthcare Corporation Limited will be governed by its own board of directors comprising:

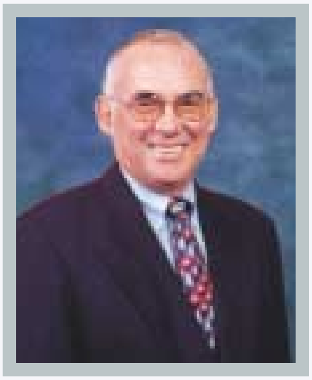
Gary A. Paykel, 59, will become non-executive chairman of Fisher & Paykel Healthcare Corporation Limited upon completion of the Separation Arrangement. Mr Paykel has been a director of Fisher & Paykel Industries Limited since August 1979 and Chief Executive Officer since December 1989 and Managing Director since April 1987. He has been on the remuneration committee since April 1989, and a trustee of the Fisher & Paykel Industries employee share purchase scheme since March 1989 and its staff superannuation scheme since May 1989. Mr Paykel joined Fisher & Paykel Industries in 1960 and, prior to his appointment to the position of sales director in 1985, held a variety of positions in the manufacturing, engineering, purchasing and sales departments. Mr Paykel has also been a director of Panprint Limited since October 1994. Mr Paykel is a Companion of the New Zealand Order of Merit.

P. Michael (Mike) Smith, 56, will become deputy chairman of Fisher & Paykel Healthcare Corporation Limited upon completion of the Separation Arrangement. Mr Smith was a director of Lion Nathan Limited from August 1986 to May 2001. Mr Smith has been chairman of RD1.COM since July 2000, a director of Fonterra Co-operative Group Limited since May 2001, New Zealand Co-operative Dairy Company Limited since January 2001, Taylors Group Limited since August 2000, Tru-Test Limited since July 2000, UnitedNetworks Limited since May 1999 and Auckland International Airport Limited since June 1998. Mr Smith received his Master of Commerce degree from the University of Auckland, New Zealand, and is a graduate of the PMD Business Course at the Harvard Business School.

Michael G. Daniell, 44, will become Chief Executive Officer and Managing Director of Fisher & Paykel Healthcare Corporation Limited upon completion of the Separation Arrangement. Mr Daniell has been the General Manager of Fisher & Paykel Industries' healthcare business since May 1990. From 1979 until May 1990, Mr Daniell held various positions in the healthcare business, including product design engineer and technical manager. Mr Daniell has more than 20 years of international healthcare business experience and has been instrumental in the establishment of many of the international distributor and original equipment manufacturer relationships of the healthcare business. Mr Daniell received his Bachelor of Engineering degree in electrical engineering with honours from the University of Auckland, New Zealand.

Adrienne E. Clarke, 63, will become a director upon completion of the Separation Arrangement. Professor Clarke is a Laureate Professor at the University of Melbourne and has a distinguished record of achievement in biological sciences. She is a Foreign Member of the American Academy of Arts and Sciences and a Fellow of the Australian Academy of Science. Professor Clarke has been a director of WMC Limited since July 1996, Woolworths Limited since July 1994, Tridan Limited from June 1988 and Hexima Limited from February 1998. She was Chairman of the CSIRO from December 1991 to December 1996. Professor Clarke is an Officer of the General Division of the Order of Australia, served as the Lieutenant Governor of Victoria and currently holds a variety of Australian governmental appointed positions. Professor Clarke received a Bachelor of Science degree and a doctoral degree from the University of Melbourne.

Dr Nigel T. Evans, 60, will become a director upon completion of the Separation Arrangement. Dr Evans has been a principal of Quark Technology since June 1987. Dr Evans held a variety of management positions with New Zealand Steel Limited from August 1966 to May 1987. Dr Evans received his Bachelor of Science degree from the University of New Zealand, a Master of Science degree from the University of Auckland, New Zealand, and a doctoral degree in physics from the University of Cambridge. Dr Evans has also attended the Senior Managers Program, Graduate School of Business Administration, Harvard University.



W. Lindsay Gillanders, 51, will be a director upon completion of the Separation Arrangement. Mr Gillanders has been a director of Fisher & Paykel Industries Limited since May 1992, and Company Secretary since April 1987. He has also been a trustee of Fisher & Paykel Industries Limited's employee share purchase scheme since March 1996, and its staff superannuation scheme since December 1993. He has been the Chairman of the staff superannuation scheme since March 1996. Mr Gillanders has held various positions in Fisher & Paykel Industries' legal department since 1977. Since 1992, Mr Gillanders has been responsible for Fisher & Paykel Industries Limited's legal, regulatory, compliance and intellectual property rights, and has worked on major commercial agreements including acquisitions and divestments by both the appliances and healthcare businesses. Mr Gillanders received his Bachelor of Laws degree with honours from the University of Auckland, New Zealand.

Sir Colin J. Maiden, 68, will be a director upon completion of the Separation Arrangement. Sir Colin has been a director of Fisher & Paykel Industries since August 1979 and Chairman since 1989. He has been a member of the remuneration committee since April 1989 and has also been a trustee of Fisher & Paykel Industries' executive share purchase scheme since December 1983. Sir Colin was the Vice Chancellor of the University of Auckland from January 1971 to November 1994, and has also been Chairman of each of Tower Insurance Limited since September 1998 and Marsh New Zealand Advisory Board since April 1998. Sir Colin has also been a director of DB Group Limited and its subsidiaries since May 1994, New Zealand Refining Company Limited since April 1991, Foodland Associated Limited since March 2000, Tower Limited, Tower Holdings Limited and Tower Financial Services Group Limited since May 1999, Transpower New Zealand Limited since May 1994 and Independent Newspapers Limited since July 1989. He has also held a number of managerial positions with General Motors Corporation in the U.S. and was a senior lecturer in civil engineering at the University of Auckland, New Zealand. Sir Colin received his undergraduate degrees in engineering from the University of New Zealand, a doctoral degree from Oxford University and an honorary LL.D. from the University of Auckland, New Zealand.

Senior management

Fisher & Paykel Healthcare will be managed by a senior management team comprising:

Michael G. Daniell, 44, will become Chief Executive Officer and Managing Director of Fisher & Paykel Healthcare Corporation Limited upon completion of the Separation Arrangement. Mr Daniell has been the General Manager of the healthcare business since May 1990. From 1979 until May 1990, Mr Daniell held various positions in the healthcare business, including product design engineer and technical manager. Mr Daniell has more than 20 years of international healthcare business experience and has been instrumental in the establishment of many of the healthcare business's international distributor and original equipment manufacturer relationships. Mr Daniell received his Bachelor of Engineering degree in electrical engineering with honours from the University of Auckland, New Zealand.

Antony G. Barclay, 36, will become Fisher & Paykel Healthcare's Chief Financial Officer upon completion of the Separation Arrangement. Mr Barclay has been the Financial Controller of the healthcare business since July 1996. Mr Barclay was a management accountant for Arnotts Biscuits (NZ) from February 1995 to July 1996 and its financial accountant from December 1993 to January 1995, and was a senior associate and manager with Price Waterhouse in New Zealand and Papua New Guinea from September 1990 to November 1993. Prior to 1990, Mr Barclay held a variety of positions with Price Waterhouse in New Zealand. Mr Barclay has been a Chartered Accountant in New Zealand since May 1990. Mr Barclay received his Bachelor of Commerce degree in accounting and finance from the University of Otago, New Zealand.

Lewis G. Gradon, 40, will become Fisher & Paykel Healthcare's Senior Vice President – Research and Development upon completion of the Separation Arrangement. Mr Gradon has been the General Manager – Research and Development of the healthcare business since September 1996, and research and development manager since May 1990. Since January 1994, Mr Gradon has been a member of the International Standards Organisation technical committee 121 – Anaesthesia and Breathing Machines. Mr Gradon has also held various engineering positions within the healthcare business, including product design engineer, since 1985. Mr Gradon has overseen the development of the complete healthcare product range. Mr Gradon received his Bachelor of Science degree in physics from the University of Auckland, New Zealand.

Paul N. Shearer, 42, will become Fisher & Paykel Healthcare's Senior Vice President – Sales & Marketing upon completion of the Separation Arrangement. Mr Shearer has been the General Manager – Sales and Marketing of the healthcare business since September 1996. Mr Shearer was located in France from June 1998 to October 1998 to establish the healthcare business's French sales company; in the U.S. from January 1996 to May 1998 to establish Fisher & Paykel Healthcare Inc. and in the UK from February 1994 to October 1994 to establish the healthcare business's UK sales company. Mr Shearer was also the General Manager of International Operations from April 1993 until June 1995; General Manager of the healthcare business's Australian sales company from April 1991 to March 1993; and Manager of the New Zealand healthcare sales business from March 1990 to March 1991. Mr Shearer has also held various positions with Computercorp Ltd, a computer systems integrator, and ICL Ltd, a large multinational computer systems company. Mr Shearer received his Bachelor of Commerce degree in marketing from the University of Canterbury, New Zealand.

MR850
respiratory humidifier system

RT100
single-use dual heated breathing circuit

ACLAIM
CPAP nasal mask

HC220
integrated flow generator-humidifier

HC150
CPAP heated humidifier

IW930
infant warmer

Business description

OVERVIEW

Fisher & Paykel Healthcare believes it is the leading designer, manufacturer and marketer of heated humidification products and systems for use in respiratory care and the treatment of obstructive sleep apnea. Its products and systems are sold in over 90 countries worldwide. These products are sold through an international network of distributors and the healthcare business has established sales offices in the U.S., the United Kingdom, France, Germany, Australia and New Zealand that sell to hospitals, home healthcare providers, distributors and other manufacturers of medical devices.

The healthcare business is organised in three product groups: respiratory humidification, obstructive sleep apnea, and patient warming and neonatal care. The two primary product groups of the business are:

- *Respiratory humidification.* Fisher & Paykel Healthcare offers respiratory humidifiers, single-use and reusable chambers and breathing circuits and accessories that are designed to humidify the gases that a patient receives during mechanical ventilation, oxygen therapy or non-invasive ventilation.
- *Obstructive sleep apnea.* Fisher & Paykel Healthcare offers continuous positive airway pressure, or CPAP therapy products which are used in the treatment of obstructive sleep apnea to prevent temporary airway closure during sleep. The healthcare business's products, including integrated flow generator-humidifiers, are designed to deliver humidified airflow to patients during CPAP therapy.

In addition, the healthcare business offers patient warming and neonatal care products, including warming products designed to help maintain normal body temperature, and infant resuscitators and CPAP systems designed to improve infant respiratory function.

HUMIDITY

In human respiration, air is inhaled through the nose and mouth, passing through the airways to the lungs. The lungs facilitate the absorption of oxygen from the inhaled air into the bloodstream, and transfer carbon dioxide, a waste product of respiration, back into the air that is then exhaled. Humidity, which is water vapour contained in a gas, is essential to protect delicate airway and lung tissue and to optimise the exchange of gases that occurs in the lungs during respiration. Humidity prevents nasal passages and airways from drying and aids in the functioning of the body's mucociliary transport system, which helps to filter and remove foreign matter from the airways and the lungs.

The amount of humidity a gas can contain is affected by the temperature of the gas. For example, room air at 21 degrees Celsius typically contains less than a quarter of the water vapour normally contained in air in the lungs at the human core body temperature of 37 degrees Celsius. At core body temperature, air can hold 44 milligrams of water per litre, which is the level of saturation, and is unable to hold more water vapour without producing condensation. Saturated air at core body temperature is considered optimal for the proper functioning of the respiratory system. To achieve this level of temperature and humidity, the nose and upper airways normally release heat and moisture into inspired air, and recapture heat and moisture from expired air to help condition the next inspired breath.

However, the normal humidifying function of the nose and upper airways may be compromised or bypassed altogether when respiration is assisted. Respiration may be assisted by the use of a ventilator to provide breathing support, the delivery of supplemental oxygen, or in CPAP therapy in the treatment of obstructive sleep apnea. Under these conditions, the body may not be able to humidify the inhaled air to ideal conditions. As a result, nasal passages and airways may become dry, and patients may experience a range of adverse side effects.

Heated humidification improves patient care in the treatment of a variety of medical conditions which interfere with normal respiration. Warming and moistening the gases delivered through ventilation, oxygen therapy and CPAP therapy helps to reproduce the normal functioning of the nose and airways and reduces airway moisture loss and the occurrence of adverse side effects. Fisher & Paykel Healthcare has developed a core expertise in heated humidification and has designed and developed products and systems that address many of the side effects caused by a lack of humidification in the treatment of various respiratory conditions.

RESPIRATORY HUMIDIFICATION

Fisher & Paykel Healthcare offers a variety of products and systems to provide humidification in the treatment of respiratory conditions which require the use of mechanical ventilation, oxygen therapy or non-invasive ventilation.

Mechanical ventilation

A patient may require breathing assistance from a mechanical ventilator when the normal functioning of the patient's lungs is impaired by various diseases, severe trauma or premature birth. During mechanical ventilation, a tube from the ventilator is inserted into the patient's trachea to connect the ventilator as directly as possible to the patient's lower airways and lungs. This is referred to as intubation. The U.S. Centers for Disease Control and Prevention reported that over 1.5 million patients required intubation and mechanical ventilation in the U.S. in 1997.

The use of a tracheal tube bypasses the upper respiratory tract where most of the conditioning and filtering of inspired air normally occur and, as a result, the body's ability to warm and humidify inspired air and to filter foreign particles by the operation of the mucociliary transport system is impaired. The gas conditioning functions normally performed by the nose and upper airways are forced to occur lower in the patient's respiratory system, in areas not normally required to supply heat and moisture. Due to the exposure to drier gases, this normally moist and warm area will gradually become cooler and drier. Cilia, or small hair-like protrusions lining the respiratory tract, normally transport contaminants trapped in the mucus out of the respiratory system by their beating action. Under cooler and drier conditions, cilia beat more slowly because the mucus becomes thicker and more difficult to move. As a result, the mucociliary transport system operates less effectively. When this happens, mucus and secretions may begin to pool in the airways and may:

- obstruct airways or the tracheal tube;
- increase the risk of bacterial infection;
- lead to increased resistance to airflow, which increases the effort required to breathe; and
- prevent effective gas exchange in the lungs.

Minimising the risks associated with a lack of humidity during mechanical ventilation is critical to patient care and to reducing the length of the hospital stay and the cost of treatment. As a result, the use of humidification during mechanical ventilation has become a standard of care. Heated humidifiers and heat and moisture exchangers, or HMEs, are used to provide humidity to gases delivered to mechanically ventilated patients. HMEs operate by capturing some of the moisture from an exhaled breath and then recirculating the moisture during inhalation. However, HMEs have a variety of limitations. HMEs are unable to deliver gases at close to core body temperature and saturation because not all of the expired moisture is captured in the HME and not all of the captured moisture is recirculated to the patient. HMEs also increase the breathing effort required from patients, many of whom are critically ill, and are not recommended for use with some patient groups, including patients who have thick mucus secretions, require large breath volumes or have a low core body temperature. The Company believes that, in contrast to HMEs, heated humidifiers can provide the optimal level of humidity to gases delivered to mechanically ventilated patients.

Oxygen therapy and non-invasive ventilation

Oxygen therapy, in which oxygen is delivered through a facial mask or nasal tubes, is prescribed for patients who require supplemental oxygen as a result of conditions that impair oxygen exchange in the lungs, such as chronic obstructive pulmonary disease. In 1997 over 250,000 patients hospitalised in the U.S. received oxygen therapy, and over 700,000 used oxygen therapy in the home. Non-invasive ventilation, in which the patient is connected to a ventilator by a mask rather than a tracheal tube, is used for patients who have impaired lung function but require less breathing assistance than is provided by mechanical ventilation.

Business description *continued*

A patient who is prescribed oxygen therapy or non-invasive ventilation may suffer from a variety of side effects as a result of receiving gases at a higher flow or lower humidity than normal. These side effects include drying of the nose, throat and airways, nosebleeds, chest discomfort and headaches. Studies have demonstrated that warming and moistening these gases helps to reduce airway moisture loss and the occurrence of these side effects. Several devices, including cold passover devices and nebulizers, are used to provide some humidity during non-invasive respiratory care. Cold passover devices operate by passing gases over a container of unheated water. However, this method provides only low levels of additional humidity. A nebulizer is a device that converts water into aerosol particles. Nebulizers also have a number of limitations. Nebulized water particles are large enough for bacteria, viruses and other contaminants to adhere to, exposing the patient to an increased risk of infection. In addition, as a result of their relatively large size, the water particles from a nebulizer are not transported deeply enough into the patient's respiratory tract to provide optimal relief from drying of the airways and may condense and lead to excessive water in the airways.

Fisher & Paykel Healthcare's heated humidification solution

Heated humidifiers overcome many of the limitations of HMEs, cold passover devices and nebulizers and can provide desired levels of humidity. Heated humidifiers produce water vapour molecules that are too small to transport bacteria, viruses and pathogens. Due to the relatively small size of the water molecules, water vapour is able to penetrate deeply into the respiratory tract, delivering moisture where it is needed in the lower airways. In addition, the use of heated humidification does not require additional breathing effort by the patient.

Due to the physical properties of humidity, however, it is difficult to effectively create, control and deliver gases at optimal temperatures and humidity. For example, variations in the temperature and flow rates of gases passing through the humidifier require constant monitoring and appropriate adjustment of the humidifier to ensure that the desired humidity level is achieved. Once the desired humidity level is created, it is also difficult to deliver the gases a metre or two from the humidifier to the patient without the gases cooling, resulting in condensation and a loss of humidity.

Fisher & Paykel Healthcare manufactures a range of products and systems designed to meet these challenges, including heated humidification devices and complementary single-use and reusable chambers and breathing circuits. The Company's products overcome many of the limitations of alternative humidification devices, and offer many advanced features and benefits, including the ability to:

- *Create optimal humidity.* Fisher & Paykel Healthcare's products are designed to create the optimal levels of temperature and humidity. In addition, the Company's most advanced products feature proprietary technology to electronically monitor the temperature and flow of gases passing through the humidifier and automatically adjust the heating element to create the desired humidity level.
- *Deliver constant humidity.* Once the optimal level of humidity is created, the Company's products are designed to deliver a constant level of humidity to the patient's airways. For example, Fisher & Paykel Healthcare offers single-use breathing circuits incorporating a patented spiral heated wire designed to maintain a constant gas temperature and level of humidity and reduce condensation in the circuit.
- *Reduce caregiver intervention.* Fisher & Paykel Healthcare's more advanced products are designed to reduce the amount of intervention required by the caregiver by decreasing the need to drain condensation from the circuits and open the chamber to replenish the water supply used to create the humidity. The Company believes this can reduce the risk of infection, improve patient recovery rates and reduce patient care costs.

OBSTRUCTIVE SLEEP APNEA

Obstructive sleep apnea, or OSA, is a breathing disorder in which a person continuously experiences a cycle of temporary relaxation and partial or total closure of the upper airway during sleep. This total closure of the upper airway, called an apnea, prevents normal breathing and results in either subconscious arousal to lighter levels of sleep or total awakening and can be repeated as many as several hundred times during a night of sleep. These disruptions can greatly impair the quality of sleep, although the person is often not aware of them. The loss of sustained deeper levels of sleep can have several adverse effects on the individual, including excessive daytime sleepiness, reduced cognitive function and work-related difficulties. Studies have also linked OSA to increased occurrences of traffic and workplace accidents. OSA has also been associated with an increased risk of hypertension and may also increase the risk of cardiovascular morbidity and mortality due to angina, stroke and heart attack. OSA is considered to be one of the most common sleep disorders, and is estimated by the U.S. National Institutes of Health to affect approximately 12 million people in the U.S. alone. Despite its prevalence, there is a general lack of awareness about OSA among both the medical community and the general public, which has led to relatively low levels of diagnosis. The American Sleep Apnea Association estimates that 10 million people in the U.S. alone remain untreated for this disorder.

Continuous positive airway pressure therapy

Continuous positive airway pressure, or CPAP therapy is generally acknowledged as the most effective and least invasive treatment currently available for OSA. Although not a medical cure for OSA, CPAP therapy assists airway functioning and facilitates more normal sleep patterns. During CPAP therapy, a patient sleeps with a nasal or facial mask connected by a tube to a small portable airflow generator that delivers room air at a predetermined continuous positive pressure. The continuous air pressure acts as a pneumatic splint to keep the patient's upper airway open and unobstructed. As a result, the cycle of apneas which leads to the disruption of sleep and other symptoms that characterise OSA is prevented. Theta Reports, an independent research organisation, projected that 500,000 CPAP flow generators will be sold in the U.S. during 2001.

Limitations of CPAP therapy

The effectiveness of CPAP therapy depends on the patient using the treatment consistently and for a sufficient duration. However, CPAP therapy often produces side effects that make many patients unwilling to use the treatment each night, or for the requisite time each night. When a patient using a nasal mask opens his or her mouth while asleep, the airflow delivered from the CPAP flow generator is likely to be expelled through the mouth, which is the path of least resistance. This occurrence is known as a mouth leak. Mouth leaks contribute to nasal drying because the warm, humid air that normally helps to moisten the nasal passages is now exhaled through the mouth, bypassing the nasal passages. As a result, the nasal passages and upper airways become increasingly dry and irritated, nasal airway resistance increases and patients frequently complain of a sore, dry nose and throat. In addition, the nasal passages and upper airways are generally exposed to increased airflow during CPAP therapy, which can also cause drying, irritation and discomfort.

Fisher & Paykel Healthcare's heated humidification solution

Clinical studies, some of which the Company has supported with equipment or funding, have demonstrated that heated humidification increases the likelihood that patients will continue with CPAP therapy. One of these studies found that mouth leak resulted in nasal congestion and, accordingly, increased nasal airway resistance, which could largely be prevented by the use of heated humidification. In addition, another of these studies found that more patients abandoned CPAP therapy when it was used without heated humidification than when it was used with heated humidification, and patients on average used CPAP therapy for a longer period each night when it was used with heated humidification.

Despite the benefits of heated humidification, the Company estimates that most patients who are prescribed CPAP therapy currently do not use heated humidification. The Company believes that heated humidification is the best available humidification solution for the side effects associated with CPAP therapy and that an increasing proportion of patients will use heated humidification with CPAP therapy in the future as a result of its potential to improve patient comfort and acceptance, and therefore the effectiveness of the treatment.

Fisher & Paykel Healthcare has over 30 years of experience in respiratory humidification and has utilised proprietary technologies and expertise to develop a range of heated humidification devices, systems and complementary products specifically designed for use in CPAP therapy and the treatment of OSA. The Company believes that its CPAP products and

Business description *continued*

expertise in heated humidification will enable it to take advantage of the opportunity for growth in this market. The healthcare business provides a range of benefits for the OSA market, including:

- *Broad product line.* Fisher & Paykel Healthcare offers a range of integrated flow generator-humidifiers and heated humidifiers as well as chambers, tubes and masks. The integrated flow generator-humidifiers do not require assembly, have fewer connections and are lighter and more compact than flow generators manufactured by competitors that offer an optional add-on humidifier. The Company's heated humidifiers are compatible with most brands of stand-alone flow generators.
- *Delivery of controlled humidity.* Fisher & Paykel Healthcare's patented ambient tracking technology enables its products to electronically monitor variations in room temperature and automatically adjust the heating element to offer controlled humidity with minimal condensation.
- *Improved patient comfort.* The Company's CPAP products are designed to improve patient comfort. For example, the Company's recently released Aclaim nasal mask incorporates proprietary comfort-enhancing features including a sliding attachment, hinged forehead rest and soft contoured nose piece. The Oracle oral mask offers an alternative to nasal and full face masks by delivering CPAP orally.

BUSINESS STRATEGY

Fisher & Paykel Healthcare's objective is to utilise its expertise and position in heated humidification to improve its market position in the respiratory care, obstructive sleep apnea and related markets. The key elements of this strategy include:

Maintain focus on research and development. The Company intends to continue to commit significant resources to the healthcare business's research and development efforts. Fisher & Paykel Healthcare has approximately 120 employees, representing nearly 20 percent of the healthcare business's workforce as of 31 March 2001, principally engaged in clinical research and product and process development. The Company believes that continuing to invest in research and development is critical to its long-term success.

Continue to improve existing product lines. The Company continually seeks to improve its current product offerings by introducing new features and advancements that enhance the performance of its existing product lines. For example, Fisher & Paykel Healthcare developed an advanced version of its breathing circuit, incorporating a patented spiral heated wire, which significantly improves the ability of the systems to deliver gases at a constant temperature and humidity. In addition, the healthcare business has recently begun to market a next generation of CPAP integrated flow generator-humidifiers and CPAP humidifiers that incorporate the Company's patented ambient tracking technologies, which the Company believes will enable the products to deliver higher humidity levels with reduced condensation.

Develop innovative, complementary product offerings. The Company intends to continue to develop and introduce new products and systems that will complement its existing product and system offerings and take advantage of its existing market positions, customer bases and distribution channels. For example, the Company recently expanded its CPAP product range by introducing its first nasal mask. The Company believes that the Aclaim nasal mask enhances patient comfort with its sliding attachment to reduce air leaks, bias flow silencer to reduce noise and contoured nose piece and hinged forehead rest to improve fit.

Target new medical applications for the Company's technologies. The healthcare business intends to continue to focus on developing new applications for its heated humidification technologies. The Company believes that its technologies may be useful in the treatment of a variety of respiratory disorders and other medical conditions. For example, the Company is investigating the use of heated humidification in the treatment of chronic obstructive pulmonary disease. Recent studies suggest that heated humidification may not only help alleviate the drying effects of oxygen therapy that is often prescribed as a treatment for chronic obstructive pulmonary disease, but may also assist to increase oxygen and decrease carbon dioxide levels in the blood.

Increase Fisher & Paykel Healthcare's international presence. Fisher & Paykel Healthcare intends to expand its international sales efforts by increasing the size of its sales operations and the number of employees who support customer, distributor and original equipment manufacturer relationships. The Company believes that additional sales presence and support for distributors and original equipment manufacturers who sell the healthcare business's products will increase the focus on the Company's products and may result in greater sales. The Company may also consider possible strategic alliances, acquisitions, business combinations or similar transactions with a view to expanding its international presence and enhancing its product range and competitive position.

PRODUCTS

The Company has three product groups: respiratory humidification, obstructive sleep apnea, and patient warming and neonatal care.

Respiratory humidification

Fisher & Paykel Healthcare's respiratory care products and systems are designed to produce and deliver optimally humidified gases to patients requiring ventilation or oxygen therapy in both hospitals and the home. The range of these products and systems includes:

- *Humidifiers.* Heated humidifiers are portable, electronic devices designed to create water vapour through the controlled heating of a heater plate located beneath a chamber containing water. The Company's humidifiers are designed to supply a constant level of humidity, and the most advanced models feature electronic monitoring and advanced algorithms to facilitate automatic adjustment and avoid unnecessary alarms.
- *Chambers.* Chambers are removable, plastic water vessels with a metal base, designed to fit on the top of the Company's humidifiers. The healthcare business manufactures single-use and reusable chambers in a variety of sizes. The most advanced chambers include a patented dual-float automatic filling mechanism designed to reduce the risk of contamination associated with manual filling.
- *Breathing circuits.* Breathing circuits are lightweight, corrugated, plastic tubes which connect the patient to the humidifier and chamber and deliver the humidified gas. The healthcare business manufactures both single-use and reusable circuits. The single-use circuits feature a patented spiral heated wire inside the tube which is designed to maintain a constant gas temperature to prevent condensation in the tube, reducing the risk of transporting pathogens and liquid water to the patient.
- *Accessories.* The Company also manufactures a wide range of accessories for use with the humidifiers, including mounting brackets, temperature probes, water bag poles, heater wire adapters and other components.

Business description *continued*

Fisher & Paykel Healthcare's principal respiratory care products are:

Product	Description	Year of Initial Release
Mechanical Ventilation		
MR850 Respiratory Humidifier System	Integrated clinical humidifier system, featuring electronic monitoring and automatic adjustment, pre-programmed operation, incorporating single-use chambers and heated breathing circuits	1999
MR730 Respiratory Humidifier	Clinical humidifier, featuring dual independent heating systems for temperature and humidity control, electronic monitoring and alarms, compatible with a wide range of heated and unheated breathing circuits	1992
HC500 Home Care Respiratory Humidifier	Humidifier specially designed for home care, with single-dial setting and alarm system, compatible with heated and unheated circuits	1994
Oxygen Therapy and Non-Invasive Ventilation		
MR410 Respiratory Humidifier	Clinical humidifier, featuring simple controls	1992
Single-Use Products		
MR200 Series Single-Use Chambers	Manual and automatic-filling water chambers	1990
RT100 Series Single-Use Breathing Circuits	Plastic tubing incorporating patented spiral heated wire technology	1998

Obstructive sleep apnea

Fisher & Paykel Healthcare's CPAP products are designed to deliver a warm, humidified airflow to patients undergoing CPAP therapy for the treatment of OSA with the objective of increasing patient comfort and acceptance of the treatment. These products can be used in the home and clinical settings and include:

- *CPAP integrated flow generator-humidifiers.* The integrated flow generator-humidifiers are fully integrated electronic devices that are designed to deliver to the patient humidified airflow at a constant level of pressure. The integrated flow generator-humidifiers do not require assembly, have fewer connections and are lighter and more compact than stand-alone flow generators with a separate humidifier.
- *CPAP humidifiers.* The CPAP humidifiers are portable, electronic devices designed to humidify the airflow generated by CPAP flow generators. The CPAP humidifiers are designed to be used with other manufacturers' stand-alone flow generators.
- *Chambers, masks & accessories.* The healthcare business also manufactures specially designed chambers, breathing tubes, masks and attaching headgear.

Business description *continued*

Fisher & Paykel Healthcare's principal CPAP products are:

Product	Description	Year of Initial Release
HC220 Series Integrated Flow Generator-Humidifier	Compact integrated unit, featuring patented ambient tracking system, flow measurement technologies and automatic adjustment, warm-up mode and meter for patient compliance monitoring	Expected to be released in 2001
HC200 Series Integrated Flow Generator-Humidifier	Compact integrated unit, featuring warm-up mode and hour meter	1999
HC150 CPAP Heated Humidifier	Heated humidifier, featuring patented ambient tracking system, electronic temperature monitoring and automatic adjustment, suitable for use with most CPAP flow generators	2001
HC100 CPAP Heated Humidifier	Heated humidifier, featuring simple-to-use settings, suitable for use with most CPAP flow generators	1992
900HC105 Starter Kit	Cold passover humidifier system, incorporating portable, folding tray for stability, suitable for use with most CPAP flow generators	1993
Aclaim Nasal Mask	Nasal mask, featuring sliding attachment to headgear to reduce air leaks, bias flow silencer to reduce noise and hinged forehead rest to increase comfort and reduce need for adjustment	2001
Oracle Oral Mask	Oral mask, for use with CPAP or bi-level ventilation, requires no headgear, straps or custom fitting, avoids nasal symptoms and mask leaks associated with masks	Expected to be released in 2001
HC300 Series Single-Use Chambers	Water chambers for use with the humidifiers and integrated flow-generator humidifiers	1992

Business description *continued*

Patient warming & neonatal care

Fisher & Paykel Healthcare also manufactures a line of patient warming and neonatal care products. Medical Data International, Inc., an independent research organisation, estimates that of the approximately four million births that occur in the U.S. each year, nearly 10 percent are pre-term births and over 7 percent are infants with low birth weight. Many of these infants require special medical care in the first months of life, including warming to help maintain a constant body temperature or breathing assistance for proper respiratory functioning. The healthcare business manufactures and markets patient warmers incorporating a patented technology designed to efficiently increase and maintain the patient's temperature while minimising heat loss to the surrounding environment. The Company also offers products designed to improve infant respiratory function. Optimally humidified air is especially important for infants because many newborns have difficulty managing the increased breathing effort that may be associated with the thickening of mucus in the airways during mechanical ventilation. The healthcare business's patient warming and neonatal care products are primarily used in clinical settings.

Fisher & Paykel Healthcare's principal patient warming and neonatal products are:

Product	Description	Year of Initial Release
IW930 CosyCot Infant Warmer	Integrated neonatal intensive care workstation, incorporating radiant warmer and optional resuscitation, suction and phototherapy devices	1997
IW910 Mobile Infant Warmer	Portable infant warming device	1997
RD900 Neopuff Infant Resuscitator	Device for infant resuscitation	1999
PW810 Radiant Patient Warmer	Portable adult warming device, designed to prevent and treat hypothermia	1999
Infant CPAP System	Infant CPAP therapy system, incorporating heated humidifier and water bubbling mechanism to create oscillating air pressure in the lungs	2001

Distributed products

In addition, Fisher & Paykel Healthcare markets in New Zealand and Australia selected complementary medical products that are manufactured by other companies. Distributed products provide the healthcare business with a broader range of products for sale by their direct sales force in New Zealand and Australia. Sales from distributed products represented almost 60 percent of operating revenue in this region, and approximately 8 percent of the healthcare business's total operating revenue, in the financial year ended 31 March 2001. However, Fisher & Paykel Healthcare has given notice of termination, effective as of 9 December 2001, of a distribution relationship that accounted for approximately $6.5 million of its operating revenue in the financial year ended 31 March 2001, due to the failure to agree on mutually acceptable terms with the manufacturer.

Business description *continued*

RESEARCH AND DEVELOPMENT

Fisher & Paykel Healthcare believes that product development and clinical research is critical to its success. As of 31 March 2001 the healthcare business employed approximately 120 engineers, scientists and physiologists principally engaged in clinical research and product and process development. This represented approximately 20 percent of the healthcare business's total workforce. The Company believes that locating its operations in New Zealand, where employment costs are very competitive compared to the U.S. and Europe, enables it to devote substantial effort to research and development. Research and development expenditures for the financial years ended 31 March 1999, 2000 and 2001 were approximately $5.6 million, $6.7 million and $8.7 million, respectively.

Each of the healthcare business's three primary product groups focuses on its own technologies at the research and development level and its own markets and customers at the sales and marketing level. The Company believes that this structure enhances efficiency and generates superior products. The healthcare business strives for a seamless progression from concept to market by incorporating technical, manufacturing, operations, sales and marketing, and clinical expertise within each product team. The research and development teams work with healthcare providers to develop an in-depth understanding of, and to be responsive to, product applications and clinical needs, and work with the sales and marketing teams to better understand industry trends.

Fisher & Paykel Healthcare believes that it is able to reduce the risks associated with new product introductions by utilising its in-house manufacturing capabilities to rapidly produce quantities of prototype products suitable for trial use and sale. In New Zealand the healthcare business is able to test clinical efficacy of these prototypes in a hospital environment, investigate patient responses and test the reliability of the product before seeking U.S. and European regulatory approvals, committing to high volume manufacturing, and commencing worldwide distribution. The healthcare business is also able to make modifications to its prototypes in response to these processes, and commence the next cycle of testing, within a relatively short period of time.

In addition to Fisher & Paykel Healthcare's strong in-house research and development capabilities, it has close working associations with a number of hospitals and clinicians, particularly in New Zealand and the U.S. These associations offer the healthcare business valuable opportunities to test emerging technologies and access to world class medical expertise.

SALES AND MARKETING

Fisher & Paykel Healthcare's customers are located in over 90 countries worldwide. For the financial year ended 31 March 2001, approximately 45 percent of operating revenue was generated in North America, approximately 28 percent in Europe, predominantly in the United Kingdom, Germany and France, and approximately 23 percent in Asia Pacific. The healthcare business employs multiple distribution channels to reach its customers:

- *Direct.* Fisher & Paykel Healthcare sells directly to hospitals, long-term care facilities and home healthcare dealers, and to dealers who then sell to these customers, through the healthcare business's direct sales offices in the U.S., the United Kingdom, France, Germany, New Zealand and Australia. In North America alone, the healthcare business markets and sells products directly to home healthcare dealers that have over 4,500 locations. For the financial year ended 31 March 2001, direct sales to hospitals, dealers and home healthcare dealers accounted for approximately half the operating revenue. More than 25 percent of operating revenue was generated from direct sales in North America.
- *Distributors.* Fisher & Paykel Healthcare sells to distributors who in turn sell to hospitals, home healthcare dealers and other manufacturers of medical products. Fisher & Paykel Healthcare has a network of approximately 100 distributors in over 90 countries worldwide, the largest of which are Allegiance Corporation, which sells the Company's products in the U.S., Canada, Italy and Spain, and Tokibo Co. Ltd., which sells the Company's products in Japan and China. Allegiance and Tokibo accounted for approximately 14 percent and 7 percent, respectively, of total operating revenue for the financial year ended 31 March 2001. The healthcare business supports these distributors through various sales and marketing efforts. For example, the Company has ten clinical humidifier specialists that support Allegiance's hospital

sales efforts in the U.S. by helping to educate hospitals on the benefits of heated humidification and the healthcare business's products and systems. The healthcare business manages these distributors through sales managers based in New Zealand, its direct sales offices or, in many countries, its regional sales managers. The healthcare business currently has regional sales managers located in Argentina, the Netherlands, India and Spain. Fisher & Paykel Healthcare expects to appoint new regional sales managers in Japan and China by the end of 2001.

- *Original equipment manufacturers.* Fisher & Paykel Healthcare sells to manufacturers of medical products and their distributors, who in turn sell to hospitals and home healthcare dealers. The healthcare business supplies humidification products to most of the leading mechanical ventilator manufacturers worldwide, which they sell with their own manufactured equipment. The Company also supplies heated humidifiers to several leading manufacturers of CPAP products, which they sell with their own CPAP flow generators.

Fisher & Paykel Healthcare believes that they can increase sales by marketing through a focused, highly trained sales team with a detailed understanding of the healthcare business's products and customer requirements. Since the countries in which the healthcare business markets products have varying physician referral patterns, customer and patient preferences and third-party reimbursement arrangements, the Company believes that it is important to have an in-depth understanding of each market. The sales and marketing strategy involves a variety of initiatives to increase the Company's penetration of target markets, including participation in trade shows, attendance at scientific meetings, and developing and distributing educational and marketing materials describing the benefits of the healthcare business's products and heated humidification.

MANUFACTURING

Fisher & Paykel Healthcare manufactures, assembles and tests its complete range of products in its facility in New Zealand. In July 2000, the Company relocated to a new, custom-built, 22,000 square metre facility in Auckland. The facility was specially designed to provide greater opportunity for research and development and sales and marketing teams for each of the three product groups to work directly with their counterpart manufacturing team. This facility incorporates a Class 100,000 controlled working environment, which is an environment containing less than a prescribed number and size of airborne particles for the volume of air, for the manufacture and assembly of the healthcare business's single-use products, including chambers and breathing circuits.

The healthcare business manufactures and assembles many of the components for its products in-house. The Company believes that this improves its ability to manage quality and helps them to rapidly develop products and manufacturing processes. The Company's manufacturing processes include plastic injection moulding and assembly of components on printed circuit boards.

The quality control team monitors production output on a daily basis. The healthcare business's electronic products are operated and tested for between 6 and 24 hours before packaging. The manufacturing and design processes comply with the requirements of ISO9001, an international standard for quality management systems. The healthcare business also complies with the requirements of the European medical device quality standard EN46001.

These standards each consist of twenty elements associated with the design, manufacture and distribution of products and services, aimed primarily at achieving customer satisfaction by preventing non-conformity during these processes. Compliance with this standard, when certified by an accredited third party regulatory agency, demonstrates adherance to documented quality management systems.

The healthcare business has an integrated requirements planning system which it uses for forecasting, scheduling manufacturing, ordering components, managing inventory and processing orders. This system is currently installed in New Zealand, Australia and the U.S., and is expected to progressively extend to the Company's other international sales offices over the next three years. In addition, the healthcare business is committed to further automating its manufacturing and assembly processes where this is efficient to reduce costs, enhance production capabilities and improve the quality and consistency of its products.

Business description *continued*

Fisher & Paykel Healthcare manufactures its products from a wide variety of raw materials, most of which are readily available in quantity from a range of sources. It purchases a limited number of components from a single-source supplier. Although the Company believes it could locate an alternative supplier for these components if required, it cannot assure investors that it would be able to do so in a timely manner, or at all, or at reasonable prices. The Company has historically purchased selected components from a single-source supplier where it is able to generate cost savings without compromising quality. The Company does not have long-term supply contracts for the raw materials it requires.

INTELLECTUAL PROPERTY

Fisher & Paykel Healthcare seeks patent protection for inventions that it believes give its products a competitive advantage. Patents are filed for the jurisdictions which Fisher & Paykel Healthcare believes together represent the majority of the potential market for a particular product. As of 31 March 2001 the healthcare business held 26 issued patents in the U.S. and had 18 U.S. patent applications pending. Fisher & Paykel Healthcare also applies for patents in other jurisdictions where it believes it is appropriate, which generally includes Australia, the United Kingdom, Germany, France, Italy and Japan. As of 31 March 2001 the healthcare business had 48 issued patents outside the U.S. and 78 patent applications pending. The healthcare business also files New Zealand provisional patent applications to cover current research and development activities. As of 31 March 2001 24 of these provisional applications had been filed.

Some of Fisher & Paykel Healthcare's patents relate to significant technologies that are utilised in the Company's respiratory care, CPAP and other products, including humidifiers, breathing circuits, chambers and warmers. Although the Company's patents are important, the Company does not consider that its business is dependent upon the protection of any one patent, or that the loss of any one patent would have a material adverse effect on the healthcare business. The Company believes that its success is more dependent upon continuing technological advances and product innovation than it is on patents.

The ongoing success of the healthcare business will also depend in part on its ability to maintain patents, obtain new patents, and develop new products and applications without infringing the patent and other proprietary rights of third parties. Fisher & Paykel Healthcare cannot guarantee that any of its existing patents will not be circumvented or challenged, that the rights granted by its patents will provide competitive advantages or that any of the healthcare business's pending or future patent applications will be issued with claims of the scope that are sought, if at all. If challenged, Fisher & Paykel Healthcare cannot assure shareholders that its patents will be held valid or enforceable. Fisher & Paykel Healthcare cannot assure shareholders that its products or proprietary rights do not infringe the rights of third parties. If an infringement were established, Fisher & Paykel Healthcare could be required to pay damages, enter into royalty or licensing agreements on onerous terms and/or be enjoined from making, using or selling the infringing product. Any of these outcomes could have a material adverse effect on the healthcare business.

GOVERNMENT REGULATION

Fisher & Paykel Healthcare's products are subject to extensive regulation, particularly as to safety, effectiveness and adherence to Good Manufacturing Practice and related manufacturing standards. Medical devices are subject to regulation by the U.S. Food and Drug Administration, or FDA, other governmental agency regulations in the U.S. and regulation by governmental agencies in other jurisdictions. Regulation in the U.S. is quite rigorous and the trend in New Zealand, Australia, Europe and Japan is toward increasing surveillance and regulation of the design, manufacture and distribution of medical devices. The healthcare business cannot predict the extent to which future legislative or regulatory developments relating to its practices and products may affect it.

There are four main categories of governmental regulation applicable to the healthcare business's products and operations:

- Quality System Regulation (U.S.);
- Medical Devices Directive 93/42 EEC (Europe);
- Good Manufacturing Practice Regulation (Japan); and
- Good Manufacturing Practice Regulation (Australia and New Zealand).

Business description *continued*

Governmental authorities in the countries in which Fisher & Paykel Healthcare sells products, including the FDA in the U.S., have the authority to require the Company to recall products in the event of material deficiencies or defects in design or manufacture. In addition, Fisher & Paykel Healthcare may voluntarily decide to recall products if, for example, they present a risk to patient safety or of impairment of product performance. The healthcare business has on occasion either voluntarily decided, or been required as a result of communications with regulators, to recall limited numbers of its products.

United States. The FDA regulates the introduction, manufacture, advertising, labelling, packaging, marketing, distribution and record keeping of medical products in order to ensure that products distributed in the U.S. are safe and effective for their intended use. In addition, the FDA is authorised to establish special controls to provide reasonable assurance of the safety and effectiveness of most devices. If the healthcare business does not comply with applicable requirements, it may suffer penalties, including:

- import detentions, fines or civil penalties;
- injunctions or suspensions or losses of regulatory approvals;
- a forced recall or seizure of products;
- operating restrictions; and
- criminal prosecution.

The FDA requires that a manufacturer introducing a new non-exempt medical device or a new indication for use of an existing medical device obtain either a Section 510(k) pre-market notification clearance or a pre-market approval, called a PMA, prior to it being introduced into the market. The healthcare business has received 510(k) pre-marketing clearance for each of the products currently marketed in the U.S. The PMA process, which is reserved for new devices that are not substantially equivalent to any predicate device and for high risk devices or devices that are used to support or sustain human life, may take several years and would require the healthcare business to submit extensive performance and clinical information. The healthcare business has not sought PMA for any of its products.

The process of obtaining Section 510(k) clearance generally requires the healthcare business to submit performance data and possibly clinical data, which in some cases can be extensive, to demonstrate that the device is "substantially equivalent" to a device that was legally marketed prior to 1976, a device that the FDA has found to be "substantially equivalent" to a pre-1976 device or has specifically exempted, or a device that has obtained Section 510(k) clearance. To demonstrate substantial equivalence, the healthcare business is required to show that the device is as safe and effective and has the same intended use as one of these devices. Fisher & Paykel Healthcare has received Section 510(k) clearance for a total of 37 products, over a period of approximately 19 years. It currently has one Section 510(k) application pending approval with the FDA and is in the process of preparing an additional four applications for submission. FDA clearance may take a considerable length of time and may, in some cases, involve additional review by an advisory panel, which can further lengthen the process. Fisher & Paykel Healthcare generally expects the FDA to approve its applications within 180 days, although they have experienced approval periods of over 600 days in the past.

As a medical device manufacturer, the healthcare business is subject to inspection on a routine basis by the FDA for compliance with the FDA's current regulations. FDA regulations impose procedural and documentary requirements regarding the safety and effectiveness of the healthcare business's manufacturing and quality control processes. For example, the healthcare business is required to maintain detailed records of customer complaints and records of product distribution to enable it to trace defective products and effect an orderly product recall if necessary. The healthcare business was inspected by the FDA in August 1996 and no Good Manufacturing Practice deficiencies were observed. The healthcare business has not been subject to an FDA inspection since it relocated to its new premises in July 2000. The increasingly stringent regulation of medical device manufacturers by the FDA in recent years has led to a reduction in the number of new products and improvements to existing products that have been cleared and increases in enforcement actions.

Business description *continued*

Europe. The European Union Community, or EUC, is made up of 15 countries which collectively represent the Company's second largest market after North America. Medical devices are regulated within the EUC by the Medical Devices Directive 93/42/EEC which has been adopted into national law by all member states. This directive provides a number of options for products to gain acceptance for distribution in the EUC, including product approval, type testing or quality management system. Most manufacturers of medical devices, including the healthcare business, have chosen to adopt the quality management system option, under which the healthcare business are required to demonstrate that its devices are designed, manufactured and distributed in accordance with the appropriate annex of the directive. By demonstrating this, the healthcare business is entitled to certification as complying with the directive under a number of European standards, including ISO9001 and EN46001.

Fisher & Paykel Healthcare's facility is subject to annual inspections by TUV Product Service, its European notified body, which is accredited by the EUC to certify the healthcare business's compliance with the directive and to authorise them to place the CE mark on its products. The CE mark indicates to purchasers of the Company's products in the EUC that its medical devices are designed and manufactured under controlled conditions in compliance with the medical devices directive. The healthcare business was most recently inspected in April 2001 and its certification to the medical devices directive was confirmed. The healthcare business is also required to register its manufacturing facility with the European regulator. The healthcare business has appointed its United Kingdom sales company as its European authorised representative, which implements product traceability systems, responds to any product complaints and maintains records of any adverse product incidents.

New Zealand. The manufacture, sale and supply of medical devices and related products in New Zealand is regulated under the Medicines Act 1981 and its regulations which, among other things, require the healthcare business to accurately describe its products to purchasers, including when advertising and labelling them. If the healthcare business does not comply with any of the applicable standards, or if the New Zealand Ministry of Health considers any of its medical devices to be unsafe, it may be required to withdraw from sale, and destroy, the offending devices. From time to time, the New Zealand Ministry of Health's therapeutics section may inspect the Company's facility. The healthcare business was most recently inspected in 1996 and was found to be in compliance with applicable standards.

Australia. The sale of medical devices in Australia is regulated by the Therapeutic Goods Act 1989, which requires that a medical device be included in the Australian Register of Therapeutic Goods. To be listed on this register, medical devices must comply with manufacturing, labelling and quality standards established and assessed by the Conformity Assessment Branch of the Therapeutic Goods Administration.

As a manufacturer of medical devices, the healthcare business must either supply the Therapeutic Goods Administration with an acceptable form of evidence of Good Manufacturing Practice or be audited by its Good Manufacturing Practice and Licensing Section. The healthcare business most recently provided evidence of compliance with Good Manufacturing Practice in 1993 and was found to be in compliance with all applicable standards. The healthcare business must also comply with prescribed reporting and record keeping responsibilities, including the requirement to report any serious incidents arising from the use of its medical devices. If the healthcare business does not comply with the standards of safety and manufacture provided for by the Therapeutic Goods Act, they could suffer a number of penalties, including its registration being cancelled and being required to recall the relevant medical device.

Japan. Although the healthcare business is required to comply with government regulations in Japan, its experience has been that compliance with the more rigorous U.S. and European standards has enabled it to meet the applicable standards.

THIRD-PARTY REIMBURSEMENT

The cost of medical care in many countries is funded substantially by government and private insurance programmes. Although the healthcare business does not generally receive payment for its products directly from these payors, its continued success is dependent upon the ability of patients or other customers to obtain adequate reimbursement for the

Business description *continued*

Company's products. In most major markets, the healthcare business's products are purchased primarily by hospitals and home healthcare dealers, which are generally either government funded or invoice third-party payors directly, or otherwise invoice patients, who then seek reimbursement from third-party payors. The healthcare business's remaining sales are to distributors and manufacturers of other medical products, who then sell to these customers.

In the U.S., third-party payors include Medicare, Medicaid and private health insurance providers. These payors may deny reimbursement if they determine that a device has not received appropriate FDA clearance, is not used in accordance with cost-effective treatment methods, or is experimental, unnecessary or inappropriate. Third-party payors are also increasingly challenging prices charged for medical products and services, and certain private insurers have initiated reimbursement systems designed to reduce healthcare costs. The trend towards managed healthcare and the growth of health maintenance organisations, or HMOs, which control and significantly influence the purchase of healthcare services and products, as well as ongoing legislative proposals to reform healthcare, may all result in lower prices for the healthcare business's products. Fisher & Paykel Healthcare cannot assure you that its products will be considered cost-effective by third-party payors, that reimbursement will be available or continue to be available, or that payors' reimbursement policies will not adversely affect its ability to sell products on a profitable basis, if at all. In some of the Company's major markets, for example Australia, the United Kingdom and Japan, there is currently limited reimbursement for devices that treat OSA. In addition, the healthcare business has not yet completed the process of obtaining approval status for some of its CPAP products that would enable reimbursement for these devices in Germany.

COMPETITION

The markets for the healthcare business's products are highly competitive. The Company believes that the principal competitive factors in all of these markets are product features, reliability and price. Reputation and efficient distribution are also important factors. Patent protection could also become an important issue in the future. If the healthcare business fails to offer products which incorporate features similar to or more desirable than those incorporated in products offered by its competitors, fails to offer products which are perceived as reliable by consumers, or is unable or unwilling to meet the prices offered by its competitors, the healthcare business could be adversely affected.

Fisher & Paykel Healthcare competes on a market-by-market basis with various companies, many of which have greater financial, research and development, manufacturing and marketing resources than it has. In North America, the healthcare business's largest market, the principal competitors in respiratory humidification include Hudson Respiratory Care Inc., Vital Signs, Inc., Smiths Industries plc and Pall Biomedical, Inc., a subsidiary of Pall Corporation. The healthcare business's principal competitors in the OSA market include Respironics, Inc., ResMed Inc. and Tyco International Ltd. Fisher & Paykel Healthcare also competes with ResMed Inc., Tyco and Respironics, Inc. and regional European manufacturers in the European OSA market. The Company's principal competitors in the infant warming market include the Datex-Ohmeda Division of Instrumentarium Corporation and Hillenbrand Industries, Inc.

Any product that the healthcare business develops for which it obtains regulatory approval will have to compete for market acceptance and market share. An important factor in this competition may be the healthcare business's timing in introducing competitive products. Accordingly, the relative speed with which the healthcare business can develop prototypes, complete clinical testing, obtain regulatory approval and patent protection, if appropriate, and supply commercial quantities of the product will be important competitive factors.

PRODUCT LIABILITY INSURANCE

The healthcare business is exposed to potential product liability risks that are inherent in the design, manufacture and marketing of medical devices. Claims alleging product liability may involve large potential damages, significant defence costs and damage to reputation. Although Fisher & Paykel Healthcare currently maintains product liability insurance intended to cover these claims with coverage limits that are considered adequate, Fisher & Paykel Healthcare cannot assure you that all claims will be covered by this insurance. In addition, the Company's insurance policies must be renewed annually. While the healthcare business has been able to obtain product liability insurance in the past, insurance varies in cost, can be difficult to obtain and may not be available in the future at all, or on terms acceptable to the Company. A successful claim against the healthcare business in excess of the available insurance coverage could have a material adverse effect on the healthcare business.

EMPLOYEES

As of 31 March 2001 the healthcare business employed approximately 620 people worldwide, including approximately 210 in manufacturing, 120 in research, development and engineering, 110 in sales and marketing and 180 in management, administration and operations. As of 31 March 2000 and 31 March 1999 the healthcare business employed approximately 525 and 470 people, respectively. Substantially all of the Company's employees are employed on a full-time basis. As of 31 March 2001 the healthcare business had approximately 477 employees located in New Zealand, 46 in North America, 34 in Australia, 26 in Germany and Austria, 21 in the United Kingdom and Ireland and 16 in France, Belgium and the Netherlands. As of 31 March 2001 approximately 230 of the healthcare business's employees were represented by a labour union and were covered by a collective bargaining agreement which expires each year in July. The Company believes that relations with its employees are good.

PROPERTIES

Fisher & Paykel Healthcare owns approximately 40 hectares of land in Auckland on which its 22,000 square metre headquarters and manufacturing facility is located. This facility, which was completed in July 2000, contains approximately 8,200 square metres of manufacturing space, 8,700 square metres of combined research and development, sales and marketing and administration space and 5,000 square metres of warehouse space. Fisher & Paykel Healthcare also leases warehouse and office space for its international sales offices in the vicinity of the following cities:

Location	Size (square metres)
Los Angeles, United States	1,765
London, United Kingdom	930
Paris, France	650
Stuttgart, Germany	740
Melbourne, Australia	930

Fisher & Paykel Healthcare's aggregate rent expense was approximately $1.2 million for the financial year ended 31 March 2001.

LEGAL PROCEEDINGS

Fisher & Paykel Healthcare is, from time to time, a party to litigation that arises in the normal course of business operations, including product liability claims. Fisher & Paykel Healthcare is not presently a party to any litigation that it believes would reasonably be expected to have a material adverse effect on its business.

Business description *continued*

SUBSIDIARIES

The following table sets forth the significant subsidiaries of Fisher & Paykel Industries Limited and indicates the subsidiaries which, following completion of the Separation Arrangement, will be subsidiaries of Fisher & Paykel Healthcare Corporation Limited. All of the subsidiaries are directly or indirectly wholly-owned by Fisher & Paykel Industries Limited.

Name of Subsidiary	Jurisdiction
Fisher & Paykel Limited	New Zealand
Fisher & Paykel Finance Limited	New Zealand
Fisher & Paykel Healthcare Limited(1)	New Zealand
Fisher & Paykel Healthcare Properties Limited(1)	New Zealand
Fisher & Paykel Holdings Inc. (USA)(1)	U.S.
Fisher & Paykel (Singapore) Pte Limited	Singapore
Fisher & Paykel Production Machinery Limited	New Zealand
Fisher & Paykel Healthcare Limited(1)	United Kingdom
Fisher & Paykel Healthcare Pty Limited(1)	Australia
Commercial Finance Limited	New Zealand
Equipment Finance Limited	New Zealand
Fisher & Paykel Appliances Inc.	U.S.
Fisher & Paykel Healthcare Inc.(1)	U.S.
Fisher & Paykel Healthcare SAS(1)	France
Fisher & Paykel Healthcare GmbH & Co KG(1)	Germany
Fisher & Paykel Australia Holdings Limited	Australia
Fisher & Paykel Australia Pty Limited	Australia
Fisher & Paykel Manufacturing Pty Limited	Australia

(1) Following completion of the Separation Arrangement will be a subsidiary of Fisher & Paykel Healthcare Corporation Limited.

Unaudited pro forma consolidated statement of financial position of Fisher & Paykel Healthcare Corporation Limited

IMPORTANT INFORMATION

This unaudited pro forma consolidated statement of financial position of Fisher & Paykel Healthcare Corporation Limited has been prepared for the purposes of the Separation Arrangement. Pursuant to the Separation Arrangement, Fisher & Paykel Industries Limited will sell its appliances and finance businesses to a wholly owned subsidiary Fisher & Paykel Appliances Holdings Limited which, upon completion of the Separation Arrangement, will be owned by the existing shareholders of Fisher Paykel Industries Limited. As a result of the Separation Arrangement, the existing healthcare business will be Fisher & Paykel Industries Limited's only remaining business. Fisher & Paykel Industries Limited will change its name to Fisher & Paykel Healthcare Corporation Limited as part of the Separation Arrangement. See "Explanation of the Separation Arrangement" in the Notice of Annual Shareholders Meeting for more details.

The unaudited pro forma consolidated statement of financial position for Fisher & Paykel Healthcare Corporation Limited as at 31 March 2001 has been prepared to provide information about the effect of the Separation Arrangement.

The unaudited pro forma consolidated statement of financial position as at 31 March 2001 reflects the sale of the appliances and finance businesses as if they had been sold to Fisher & Paykel Appliances Holdings Limited on 31 March 2001. Further pro forma effect has been given to the buy back by Fisher & Paykel Industries Limited of 18.2 million of its shares. Fisher & Paykel Appliances Holdings Limited will own slightly less than 20 percent of the shares in Fisher & Paykel Healthcare Corporation Limited.

The unaudited pro forma information is presented for illustrative purposes only and does not purport to represent what the actual financial position of Fisher & Paykel Healthcare Corporation Limited would have been on the date of completion of the Separation Arrangement or any other date. The Separation Arrangement is expected to take effect in November 2001. The pro forma adjustments are based upon currently available information and estimates and assumptions. Actual adjustments may differ from the pro forma adjustments. The statement of financial position of Fisher & Paykel Healthcare Corporation Limited prepared in the future may differ materially from the unaudited pro forma information reflected below due to various factors, including those described under "Risk factors" and elsewhere in this Information Memorandum.

The unaudited pro forma financial information should be read in conjunction with the other financial information appearing elsewhere in this Information Memorandum, including the historical financial information relating to Fisher & Paykel Healthcare, see "Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses" on pages 30 to 35, the "Risk factors" section on pages 36 to 41 and the financial information contained in Annexures A and B, together with the Audit Report in Annexure C.

Unaudited pro forma consolidated statement of financial position of Fisher & Paykel Healthcare Corporation Limited *continued*

As at 31 March 2001

	Fisher & Paykel Industries Limited as reported $000	2001 Adjustment (Note 6) $000	Separation of appliances and finance businesses (Note 2) $000	Fisher & Paykel Industries Limited excluding appliances and finance businesses (Note 1) $000	Fisher & Paykel Industries Limited Share Buy Back (Note 3) $000	Pro forma adjustments (Note 4) $000	Pro Forma Statement of Financial Position as at 31 March 2001 (Note 5) $000
Assets							
Cash					(212,000)	212,000	–
Current assets:							
Cash and bank balances	7,675		(2,501)	5,174		97,000	102,174
Debtors and prepayments	117,758		(83,658)	34,100			34,100
Finance receivables	169,366		(169,366)	–			–
Inventories	162,056		(143,786)	18,270			18,270
Taxation	7,071		1,522	8,593			8,593
Non-current assets:							
Fixed assets	360,030		(301,116)	58,914			58,914
Employee share ownership plan loans	11,301			11,301			11,301
Other assets	943		(943)	–			–
Goodwill on consolidation	2,955			2,955			2,955
Finance receivables	101,771		(101,771)	–			–
Deferred taxation	12,571		(12,192)	379			379
Net investment in Appliances and Finance businesses			326,903	326,903		(326,903)	–
Total assets	**953,497**		**(486,908)**	**466,589**	**(212,000)**	**(17,903)**	**236,686**
Liabilites							
Current liabilities:							
Bank overdrafts	3,469		(2,102)	1,367			1,367
Call borrowings	2,500		(2,500)	–			–
Trade creditors	47,738		(39,242)	8,496			8,496
Provisions	67,392	3,046	(42,687)	27,751			27,751
Finance borrowings	174,432		(174,432)	–			–
Term borrowings (current)	14,264		(7,045)	7,219			7,219
Taxation	6,282	(1,005)	7,778	13,055			13,055
Other liabilities	38,542		(33,728)	4,814			4,814
Term liabilities:							
Term borrowings	109,698		(107,995)	1,703			1,703
Finance borrowings	73,523		(73,523)	–			–
Provisions	31,619		(11,432)	20,187			20,187
Total liabilities	**569,459**	**2,041**	**(486,908)**	**84,592**	**–**	**–**	**84,592**
Total shareholders' equity	**384,038**	**(2,041)**	**–**	**381,997**	**(212,000)**	**(17,903)**	**152,094**
Total liabilities and shareholders' equity	**953,497**		**(486,908)**	**466,589**	**(212,000)**	**(17,903)**	**236,686**

See accompanying notes to this unaudited pro forma consolidated statement of financial position.

The audited consolidated statement of financial position of Fisher and Paykel Industries Limited as at 31 March 2001 includes offsets in the following areas: Cash and bank balances, Debtors and prepayments, Other liabilities and Taxation. On completion of the Separation Arrangement, such offsets are no longer valid and the individual financial statements are prepared excluding these offsets. Accordingly, the amounts in column 4 will, for Debtors and prepayments and other liabilities, not agree with the equivalent items in the audited consolidated statement of financial position for Fisher & Paykel Industries Limited excluding the appliances and finance businesses as at 31 March 2001. However these items, when netted with their related asset or liability, reconcile with that audited consolidated statement of financial position of Fisher & Paykel Industries Limited excluding the appliances and finance businesses.

Unaudited pro forma consolidated statement of financial position of Fisher & Paykel Healthcare Corporation Limited *continued*

Notes

1 The statement of financial position of Fisher & Paykel Industries Limited excluding the appliances and finance businesses excludes from the individual Assets and Liabilities all amounts relating to the appliances and finance businesses and represents them as "Net investment in appliances and finance businesses".

2 Separation of appliances and finance businesses inclusive of borrowings for those businesses.

3 The buy back of 18.2 million shares for cash in a selected buy back from Fisher & Paykel Appliances Holdings Limited.

4 If effect had been given to the Separation Arrangement on 31 March 2001, the net proceeds from the sale of the appliances and finance businesses would have been $309 million. The fair value of the appliances and finance businesses acquired, net of any deferred taxation adjustment, is $309 million, being $17.9 million less than the carrying value of these assets of $326.9 million. The $17.9 million amount represents an adjustment for loss on sale of the assets.

5 If effect had been given to the Separation Arrangement on 31 March 2001, the healthcare business would have held $102.2 million in cash and bank balances. The actual cash and bank balances of the healthcare business upon completion of the Separation Arrangement will reflect the payment by Fisher & Paykel Industries Limited of the June 2001 dividend $21.3 million and interim and special dividend payments in September 2001 and cash from operations from 31 March 2001 through to the Separation Date. No adjustment has been made for Separation Arrangement costs of approximately $25 to $30 million as these costs are to be paid by Fisher & Paykel Appliances Holdings Limited and not by Fisher & Paykel Healthcare Corporation Limited.

Also, as part of the Separation Arrangement, Fisher & Paykel Healthcare Corporation Limited will have a fixed amount of Fisher & Paykel group borrowings. Fisher & Paykel Healthcare Corporation Limited will repay these borrowings using the cash arising from the sale of the appliances and finance businesses to Fisher & Paykel Appliances Holdings Limited so that on completion of the Separation Arrangement, Fisher & Paykel Healthcare Corporation Limited will have cash on hand of approximately $30 to $35 million and foreign subsidiary borrowings of approximately $5 to $10 million. Fisher & Paykel Healthcare Corporation Limited may also receive additional cash if the over-allotment option is exercised (see "Over-allotment Option" on page 16 of the Notice of Annual Shareholders Meeting). Borrowings of the Fisher & Paykel group not allocated to Fisher & Paykel Healthcare Corporation Limited will be allocated to the appliances business of Fisher & Paykel Appliances Holdings Limited.

6 This adjustment allows for an under provision for unrealised foreign exchange loss as at 31 March 2001, caused by an inadvertent error in the Mark to Market information supplied to Fisher & Paykel Healthcare Corporation Limited by one of its bankers.

Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses

The following discussion and analysis of the historical financial position and financial performance of Fisher & Paykel's healthcare business should be read in conjunction with the Audited Consolidated Financial Statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses included in this Information Memorandum. This discussion and analysis contains forward-looking statements based on current expectations that involve risks and uncertainties. The actual results of Fisher & Paykel Healthcare Corporation Limited may differ materially from the results described in or implied by the forward-looking statements contained in this Information Memorandum as a result of many factors, including those described under "Risk factors'' on pages 36 to 41 and elsewhere in this Information Memorandum.

In the following discussion, references to financial information concerning the healthcare business are references only to the "continuing operations" of Fisher & Paykel Industries Limited set out in Annexures A and B to this Information Memorandum.

OVERVIEW

The audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses have been prepared to provide shareholders with information about the past performance of Fisher & Paykel's healthcare business. Also prepared are unaudited Pro Forma Financial Information for Fisher & Paykel Healthcare Corporation Limited showing the proposed Separation Arrangement and the effect if the proposed separation had been completed at an earlier date.

Sales of respiratory humidification products represented 53 percent of operating revenue for the financial year ended 31 March 2001. Sales of CPAP products for the obstructive sleep apnea market, which the healthcare business entered in 1992, represented 33 percent of operating revenue for the financial year ended 31 March 2001. Sales of consumable products for use in both respiratory humidification and CPAP, including chambers, breathing circuits and accessories, accounted for over 40 percent of operating revenue for the financial year ended 31 March 2001. Operating revenue from respiratory humidification, CPAP and patient warming and neonatal care products has grown at a compound annual growth rate of 33 percent from 31 March 1999 to 31 March 2001 as the healthcare business has introduced new products and the markets for these products have expanded. Operating profit and operating margin have steadily increased over the past three years to $79.8 million and 41 percent, respectively, for the financial year ended 31 March 2001.

GEOGRAPHIC DATA

The following table sets forth healthcare operating revenue from continuing operations for each of the primary geographic markets for the financial years ended 31 March 2001 and 2000:

	Financial year ended 31 March	
	2001	2000
	$millions	$millions
North America	**86.0**	56.7
Europe	**54.1**	41.2
Asia Pacific	**45.0**	41.0
Other	**8.0**	5.3
Total	**$193.1**	$144.2

Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses *continued*

CURRENCY TRANSLATIONS AND HEDGING

The healthcare business sells products in a variety of currencies, predominantly the U.S. dollar and the Euro. Because the audited consolidated financial statements which reflect the healthcare business are denominated in New Zealand dollars, fluctuations in the relative value of the New Zealand dollar to other currencies will affect the reported amount of expenses incurred and sales invoiced in other currencies. For example, if sales invoiced in U.S. dollars were to increase by 5 percent during a period when the New Zealand dollar appreciated by 7 percent relative to the U.S. dollar, as a result of the translation of U.S. dollar revenue into New Zealand dollars for financial statement reporting purposes, the healthcare business would report a decline in these revenues. Accordingly, financial performance from year to year must be analysed in light of any fluctuations in the relative values of the principal currencies in which the healthcare business conducts business compared to the New Zealand dollar.

In the financial year ended 31 March 2001, 60 percent of revenue was denominated in U.S. dollars. The healthcare business makes a significant proportion of U.S. dollar sales to customers outside the U.S. Other significant currencies include the Euro and the British pound, each of which has represented approximately 10 percent of revenue in the past financial year.

HISTORICAL FINANCIAL PERFORMANCE

Year ended 31 March 2001 compared to year ended 31 March 2000

The following table sets forth the consolidated statement of financial performance of the healthcare business for the years ended 31 March 2001 and 2000:

	Financial year ended 31 March	
	2001	2000
	$millions	$millions
Operating revenue	**$193.1**	$144.2
Operating profit	**79.8**	50.1
Interest expense	**(2.2)**	(1.2)
Foreign currency exchange profit (loss)	**(60.8)**	1.3
Surplus	**16.8**	50.2
Income tax	**7.1**	17.8
Net surplus	**$9.7**	$32.4

The following table sets forth supplemental financial data relating to the operating revenue and operating expenses of the healthcare business from operations for the financial years ended 31 March 2001 and 2000.

	Financial year ended 31 March	
	2001	2000
	$millions	$millions
Operating revenue	**193.1**	144.2
Operating expenses:		
Cost of sales	**58.0**	48.9
Research and development expenses	**8.7**	6.7
Selling, general and administrative expenses	**46.6**	38.5
Total operating expenses	**113.3**	94.1
Operating profit	**79.8**	50.1
Operating margin	**41%**	35%
Gross profit	**135.1**	95.3
Gross margin	**70%**	66%

Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses *continued*

Operating revenue

The healthcare business's operating revenue from continuing operations increased by 34 percent to $193.1 million for the financial year ended 31 March 2001 from $144.2 million for the financial year ended 31 March 2000.

The increase was principally due to a significant increase in sales volume of CPAP products and, to a lesser extent, an increase in sales volume of respiratory humidification products. It also reflects a shift in product mix toward higher priced products across all product groups.

The following table sets forth sales of the healthcare business by product group for the financial years ended 31 March 2001 and 2000:

	Financial year ended 31 March		
	2001 $millions	2000 $millions	Percentage variation
Product group:			
Respiratory humidification products	**102.6**	78.0	+32%
CPAP products	**63.3**	38.3	+65%
Patient warming and neonatal care products	**10.4**	6.3	+65%
Sub-total	**176.3**	122.6	+44%
Mobility products	**1.0**	4.5	-78%
Distributed products	**15.8**	17.1	-8%
Total	**$193.1**	$144.2	+34%

Sales of respiratory humidification products increased by approximately 32 percent in the financial year ended 31 March 2001 from sales in the prior year. Excluding the effects of currency translations, sales of respiratory humidification products are estimated to have increased by approximately 18 percent in the financial year ended 31 March 2001. This increase was in part due to an increase in sales of the MR850 humidifier system, which was available for a full financial year in the healthcare business's major markets, and to the introduction of an expanded range of breathing circuits.

Sales of CPAP products increased by 65 percent in the financial year ended 31 March 2001 from sales in the prior year. Excluding the effects of currency translations, sales of CPAP products are estimated to have increased by approximately 43 percent in the financial year ended 31 March 2001. Growth in sales of the HC200 series integrated flow generator-humidifier accounted for more than 50 percent of the total CPAP product group sales growth. This increase in sales of CPAP products was due in part to increasing market awareness of the benefits of humidification in combination with CPAP therapy in the treatment of obstructive sleep apnea.

Sales of patient warming and neonatal care products increased by 65 percent in the financial year ended 31 March 2001 from sales in the prior year. Excluding the effects of currency translations, sales of patient warming and neonatal care products are estimated to have increased by approximately 47 percent in the financial year ended 31 March 2001. This increase was due primarily to strengthened distribution capabilities in key markets.

In March 2000, the healthcare business sold the mobility scooter business. The sale had no material effect on operating profit.

Sales of distributed products decreased by 8 percent in the financial year ended 31 March 2001 from sales in the prior year primarily due to ceasing the distribution of a number of these products. In addition, Fisher & Paykel Healthcare has given notice of termination, effective as of 9 December 2001, of a distribution relationship that accounted for approximately $6.5 million of its operating revenue in the financial year ended 31 March 2001, due to the failure to agree on mutually acceptable terms with the manufacturer.

Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses *continued*

Operating expenses

Operating expenses consist of cost of sales, research and development expenses and selling, general and administrative expenses.

The cost of sales of the healthcare business consists of manufacturing costs, primarily raw materials and labour, costs of distributed products, an allocation of the overhead costs of the New Zealand facility and freight costs.

The research and development expenses of the healthcare business consist primarily of staff payroll and benefits, an allocation of the overhead costs of the New Zealand facility, costs of materials and clinical study costs.

Research and development activities are primarily conducted in New Zealand. Research and development expenses totalled $8.7 million for the year ended 31 March 2001 compared to $6.7 million in the previous financial year. The increase was attributable to increases in research and development personnel in connection with the expansion of product development activities for respiratory humidification, CPAP and patient warming and neonatal care product groups. Research and development expenses represented 5 percent of operating revenue for these product groups for the financial year ended 31 March 2001.

Research and development expenses are expected to continue to grow due to a broadening of the product range and the application of the products.

Selling, general and administrative expenses of the healthcare business consist primarily of staff payroll and benefits, travel expenses, marketing and promotional material. Selling, general and administrative expenses increased in the financial year ended 31 March 2001. This increase was primarily attributable to an increase in personnel and related expenses to support the expansion of the healthcare business in overseas markets such as the U.S.

Operating profit

Operating profit for the healthcare business before foreign currency exchange profit (loss) increased by 59 percent to $79.8 million in the financial year ended 31 March 2001 from $50.1 million in the financial year ended 31 March 2000.

Foreign currency exchange profit (loss)

Foreign currency exchange profit (loss) consists of net foreign exchange movements on all foreign currency transactions. The healthcare business incurred a foreign currency loss of $60.8 million in the financial year ended 31 March 2001 and a foreign currency profit of $1.3 million in the financial year ended 31 March 2000.

Because export sales of the healthcare business are denominated in currencies other than the New Zealand dollar, Fisher & Paykel Industries Limited entered into hedging arrangements intended to reduce the effects of foreign currency fluctuations. During the financial year ended 31 March 2001, the New Zealand dollar depreciated by approximately 19 percent against the U.S. dollar, resulting in significant exposure under these instruments. As a result of this decline, the healthcare business incurred a realised loss of $13.4 million with respect to these hedging arrangements during the financial year ended 31 March 2001. In addition, unutilised foreign exchange instruments no longer qualified for treatment as hedging instruments under applicable accounting rules because, due to the significant depreciation in the New Zealand dollar exchange rate during the year ended 31 March 2001, the foreign currency cashflows from the operations of the healthcare business ceased to correlate with its liabilities with respect to the foreign exchange instruments. As a consequence, the foreign exchange instruments were revalued as of 31 March 2001 at the U.S. dollar rate of $0.403. As a result of this revaluation, an unrealised loss of $47.4 million was provisioned on these unutilised instruments. The healthcare business will continue to incur additional losses if the New Zealand dollar falls below the rated NZ$1.00 = US$0.403 and be required to increase the provision for unrealised losses under those instruments yet to be utilised. Conversely, if the rate is above $0.403, the difference will reduce the provision for unrealised losses under these instruments.

Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses *continued*

As a result of the adverse impact of these hedging arrangements, the Board of Directors of Fisher & Paykel Industries Limited reviewed the then practices and adopted a new hedging policy designed to avoid future losses of the magnitude incurred during the financial year ended 31 March 2001. Under this new hedging policy, the healthcare business is only permitted to enter into forward foreign currency exchange contracts that expire within one year or less for amounts that approximate the anticipated net foreign currency exposure. With respect to periods beyond one year, the healthcare business is permitted only to buy appropriate foreign currency exchange options which it has no obligation to exercise.

Year ended 31 March 2000 compared to year ended 31 March 1999

Operating revenue

The operating revenue of the healthcare business increased by 21 percent to $144.2 million for the financial year ended 31 March 2000 from $119.1 million for the financial years ended 31 March 2000 and 1999. The increase was primarily due to a significant increase in sales volumes, particularly of CPAP products.

The following table sets forth sales by product group for the financial years ended 31 March 2000 and 1999:

	Financial year ended 31 March		
	2000 $millions	1999 $millions	Percentage variation
Product group:			
Respiratory humidification products	**78.0**	72.9	+7%
CPAP products	**38.3**	21.6	+77%
Patient warming and neonatal care products	**6.3**	4.8	+31%
Sub-total	**122.6**	99.3	+23%
Mobility products	**4.5**	3.9	+15%
Distributed products	**17.1**	15.9	+8%
Total	**$144.2**	$119.1	+21%

Operating expenses

During the financial year ended 31 March 2000 operating expenses increased, primarily attributable to additional costs incurred to support the expansion of the healthcare business.

The healthcare business incurred research and development expenses of $6.7 million in the financial year ended 31 March 2000, an increase from $5.6 million in the financial year ended 31 March 1999. The increase reflected an increase in research and development personnel and other expenses in connection with product improvements and technology development. Research and development expenses represented 5 percent of operating revenue for respiratory humidification, CPAP and patient warming and neonatal care product groups for the financial year ended 31 March 2000.

Selling, general and administrative expenses

Selling, general and administrative expenses increased in the financial year ended 31 March 2000 which was primarily attributable to an increase in personnel and related expenses to support growth.

Abnormal items

For the healthcare business, there were no abnormal items in the financial year ended 31 March 2000 compared to $4.2 million loss on the sale of land and buildings in the prior year.

Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses *continued*

Operating profit

The healthcare business operating profit from continuing operations before abnormals increased by approximately 24 percent to $50.1 million in the financial year ended 31 March 2000 from $40.4 million in the financial year ended 31 March 1999.

Liquidity and capital resources

Historically, the healthcare business has generated positive operating cashflow, after allowing for working capital requirements.

Net cash generated by operating activities totalled $46.0 million for the financial year ended 31 March 2001. Net cash generated was reduced by increases in accounts receivable and inventories, which was partially offset by increases in accounts payable.

Investing activities of the healthcare business has consisted mainly of purchases of property and plant and equipment. Capital expenditures totalled $12.9 million and $30.7 million for the financial years ended 31 March 2001 and 2000 respectively. Expenditures in relation to the construction of healthcare's new facility, most of which was incurred in the financial year ended 31 March 2000, were funded by cash generated by operations and short-term borrowings. Healthcare's future capital expenditures will be in line with the growth in operations, infrastructure and personnel.

At 31 March 2001 the healthcare business had, prior to giving effect to the Separation Arrangement, $5.2 million in cash and $10.3 million of borrowings. All borrowings were held outside New Zealand and are denominated in currencies other than the New Zealand dollar. The borrowings are held as balance sheet currency hedges for New Zealand dollar reporting purposes. The healthcare business borrowings are provided by banks under a negative pledge agreement. As part of the Separation Arrangement it is intended that a new negative pledge agreement will be entered into in respect of the healthcare business. See Note 5 to "Unaudited pro forma consolidated statement of financial position of Fisher & Paykel Healthcare Corporation Limited" on page 29.

Risk factors

The businesses of Fisher & Paykel Healthcare will face risks, some of which are set out below, which, if they eventuate, may materially and adversely affect its trading and profitability. The risks and uncertainties described below are not the only ones facing Fisher & Paykel Healthcare. Additional risks and uncertainties that Fisher & Paykel Healthcare is unaware of, or that it currently deems immaterial, may also become important factors that affect the healthcare business. If any of the following events actually occur, the healthcare business and its financial position or financial performance could be materially adversely affected. Shareholders should also consider the cautionary statement regarding forward-looking statements on page 48 of this Information Memorandum.

There are also specific risks associated with the separation of Fisher & Paykel Industries Limited into two listed companies. Details of those risks are set out in the Notice of Annual Shareholders Meeting which accompanies this Information Memorandum.

RISKS RELATED TO FISHER & PAYKEL HEALTHCARE

The historical financial information contained in Fisher & Paykel Industries' Annual Reports does not reflect what the results of operation, financial position and cash flows of Fisher & Paykel Healthcare will be in the future, or what the financial performance, financial position and cash flows would have been had it been a separate, stand-alone company during the periods presented.

The financial information presented to shareholders in the Fisher & Paykel Industries' Annual Reports are the historical audited consolidated financial statements of Fisher & Paykel Industries. This historical financial information does not reflect many significant changes that will occur in the financial position and operations of the healthcare business as a result of the separation of the appliances and finance businesses of Fisher & Paykel Industries from its healthcare business and the U.S. Healthcare Offer. In addition, the historical consolidated financial statements include assets, liabilities, revenue and expenses associated with the appliances and finance businesses that will be transferred to Fisher & Paykel Appliances Holdings Limited as part of the Separation Arrangement and will not be reflected in the financial statements of Fisher & Paykel Healthcare in the future. As a result, those historical financial statements should not be used as a basis for evaluating the past financial performance of the healthcare business or forecasting its future financial performance. For additional information regarding the Separation Arrangement and its anticipated effects on the financial performance of the healthcare business, see the sections entitled "Unaudited pro forma consolidated statement of financial position of Fisher & Paykel Healthcare Corporation Limited" and "Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses," elsewhere in this Information Memorandum.

The healthcare business may incur losses as a result of foreign currency fluctuations.

The healthcare business is exposed to fluctuations in foreign currencies because the healthcare business's revenue, costs, and liabilities are denominated in multiple currencies. A substantial portion of the healthcare business's costs are denominated in New Zealand dollars, but revenue is primarily denominated in U.S. dollars and euros. Any appreciation in the value of the New Zealand dollar relative to the U.S. dollar or the euro could increase the healthcare business's costs, and may materially adversely affect operating margins. Fluctuations in foreign currencies may also make period-to-period comparisons of the healthcare business's financial performance difficult.

In the financial year ended 31 March 2001 the healthcare business incurred a foreign currency loss of $60.8 million due to the depreciation of the New Zealand dollar against the U.S. dollar which resulted in significant exposure under foreign currency exchange instruments entered into by Fisher & Paykel Industries Limited and related to the healthcare business. The loss included a realised loss of $13.4 million on foreign currency exchange instruments that expired during the financial year ended 31 March 2001 and an unrealised loss of $47.4 million on foreign currency exchange instruments that will expire at various times through to 26 December 2002. Following completion of the Separation Arrangement, the healthcare business will remain liable for these foreign currency exchange instruments until they expire and it may incur additional losses. If the value of the New Zealand dollar falls below US$0.403 at the time any of these instruments expire, it will realise additional losses on the expiring contracts. In addition, the healthcare business is required to mark the value of any unexpired contracts to market at the end of each accounting period. If the value of the New Zealand dollar falls below US$0.403 at the end of any accounting period, the healthcare business will be required to increase the provision for losses for any unexpired foreign currency exchange instruments. As of 30 September 2001 the healthcare business expects to have total obligations to deliver US$66.5 million under these instruments. For each one cent decline below US$0.403 in the value of the New Zealand dollar against the U.S. dollar, the healthcare business would be required to increase its provision for loss by approximately $4 million. Losses on these foreign exchange instruments could materially adversely affect the healthcare business's profitability and could harm the healthcare business. See "Management's discussion and analysis of audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses" on page 30.

The healthcare business management's lack of experience in operating the healthcare business as a stand-alone company may make it difficult to evaluate its performance.

Fisher & Paykel Healthcare's management has previously operated the healthcare business as the healthcare division of Fisher & Paykel Industries Limited, which provided the healthcare business with management and administrative assistance. After completion of the Separation Arrangement, the healthcare business will continue to be managed by the individuals who managed the healthcare division of Fisher & Paykel Industries Limited, but the healthcare business will operate as a separate company from the appliances and finance divisions. Generally, neither Fisher & Paykel Appliances Holdings Limited nor any of its finance subsidiaries will have any obligation to provide financial, management or other assistance to the healthcare business. If management of the healthcare business is not successful in managing the business as a stand-alone company, the healthcare business could be harmed.

The healthcare business competes against substantially larger, more well established companies and the markets for the healthcare business's products are highly competitive.

Competition among medical device companies is intense. Fisher & Paykel Healthcare believes the principal competitive factors in the healthcare business's markets are product features, reliability and price. The healthcare business competes against a number of companies, many of which have greater financial, research and development, manufacturing and marketing resources than Fisher & Paykel Healthcare and may be in a better position than Fisher & Paykel Healthcare would be to withstand the adverse effect on gross margins and profitability caused by price decreases. Some of the healthcare business's competitors sell additional lines of products, and therefore can more effectively bundle products to offer higher discounts, or offer rebates or other incentive programmes to gain a competitive advantage. The healthcare business's inability to compete effectively with existing or future competitors may prevent the healthcare business from retaining its existing customers or from attracting new customers and could limit the potential for future growth.

A change in the technology relating to Fisher & Paykel Healthcare's products may result in some of its products becoming obsolete or could cause it to incur substantial costs to implement new technologies. The healthcare business could lose customers if its competitors implement new technologies before it does.

The market for Fisher & Paykel Healthcare's products is characterised by frequent product improvements, evolving technology and changing medical treatments. The healthcare business's revenue and profitability could be adversely affected by technological change. For example, the development of a new or innovative CPAP product technology by another company or the discovery of alternative treatments or a cure for obstructive sleep apnea could result in the healthcare business's CPAP products becoming obsolete or non-competitive, which would cause the Company's revenue to decline significantly.

To compete effectively, Fisher & Paykel Healthcare must anticipate and adapt to technological changes and offer, on a timely basis, competitively priced products with new and improved features that meet evolving industry standards and

Risk factors *continued*

customer preferences. The healthcare business may choose new technologies that prove to be ineffective, do not gain market acceptance or are incompatible with technologies of its customers. As new technologies develop, the healthcare business may be forced to implement these new technologies at a substantial cost to remain competitive. In addition, competitors may implement new technologies which allow them to offer lower-priced or superior quality products which render the healthcare business's products obsolete or uncompetitive. This could have a material adverse effect on Fisher & Paykel Healthcare's business.

Fisher & Paykel Healthcare has experienced some variation in its financial results in the past and expects that its future financial results may also fluctuate, which could cause the price of the Fisher & Paykel Healthcare Corporation shares to decline.

The healthcare business's financial results, including its revenue and gross margins, have from time to time fluctuated on a quarterly basis and may be subject to similar fluctuations in the future. These fluctuations have resulted from factors including:

- the timing of orders by distributors and other customers;
- the effect of foreign currency translation gains or losses;
- competitive actions, such as price reductions by competitors;
- the introduction of new products by the healthcare business or its competitors;
- the cost and effect of promotional and marketing programmes; and
- a decrease in the demand for products during the summer months in the northern hemisphere.

In addition, Fisher & Paykel Healthcare's financial performance could be adversely affected by changes in tax laws in the various countries in which it conducts business. Due to these and other factors, Fisher & Paykel Healthcare believes that quarter-to-quarter comparisons of its financial performance may not be meaningful. Shareholders should not rely on the healthcare business's financial performance for one quarter as an indication of its future performance.

Fisher & Paykel Healthcare's success depends in part on its proprietary technologies and if it is unable to successfully enforce its intellectual property rights, its competitive position may be harmed.

Fisher & Paykel Healthcare's success depends in part upon its ability to develop, maintain and protect its proprietary technologies and intellectual property rights both in the U.S. and in other countries. The Company's inability to do so could harm its competitive position.

As of 31 March 2001 the healthcare business had 26 issued patents and 18 patent applications pending in the U.S. and 48 issued non-U.S. patents and 78 non-U.S. patent applications pending. The healthcare business relies on its patent portfolio to protect a large part of its intellectual property and competitive position. Fisher & Paykel Healthcare cannot assure shareholders that its currently pending or future patent filings will issue as patents, or that any existing or future patents issued to it will be upheld if challenged, or that the protections afforded by those patents will be sufficiently broad to prevent third parties from producing competing products similar in design to its products. In addition, protection afforded by foreign patents may be more limited than that provided under U.S. patents and intellectual property laws. Fisher & Paykel Healthcare cannot assure shareholders that its patents will not be infringed upon or that it would have adequate remedies for any infringement. Fisher & Paykel Healthcare may need to use litigation to enforce its patents or to protect its other proprietary rights, which may be costly and divert the attention of its personnel.

Fisher & Paykel Healthcare also relies on trade secrets, trademarks and copyrights to protect its proprietary technologies, intellectual property rights, know-how and reputation. Fisher & Paykel Healthcare generally enters into confidentiality agreements with its employees, consultants and collaborative partners when they commence a relationship with Fisher & Paykel Healthcare in order to protect its trade secrets and other confidential information. However, Fisher & Paykel

Healthcare cannot assure shareholders that these agreements will not be breached, that they provide meaningful protection against the unauthorised use or disclosure of its trade secrets or other confidential information, that its trade secrets will not otherwise become known to or independently developed by competitors or that adequate remedies exist if unauthorised use or disclosure of its trade secrets were to occur.

Fisher & Paykel Healthcare's inability to maintain the proprietary nature of its technologies would impair its competitive advantages, could force it to reduce the prices of its products and could have a material adverse effect on its profitability and future growth prospects.

If Fisher & Paykel Healthcare infringes the patents or proprietary rights of other parties, it may incur significant costs and its business may be harmed.

Litigation over patents and other intellectual property is common in the medical device industry. Fisher & Paykel Healthcare cannot assure shareholders that it will not be the subject of patent or other litigation in the future. From time to time, Fisher & Paykel Healthcare has received, and may again receive, letters from third parties drawing attention to their patent rights. Although Fisher & Paykel Healthcare does not believe that it infringes any rights of third parties which have been brought to its attention, it cannot assure shareholders that it does not infringe other proprietary rights of third parties of which it is presently unaware.

Defending intellectual property lawsuits and related legal and administrative proceedings could result in substantial expense to Fisher & Paykel Healthcare and significant diversion of effort of its personnel. An adverse determination in a patent suit or in any other proceeding to which Fisher & Paykel Healthcare may be a party could subject it to significant liabilities. An adverse determination could require Fisher & Paykel Healthcare to seek licenses from third parties. If licenses were not available on commercially reasonable terms or at all, the healthcare business could be harmed.

The healthcare business's continued success depends on the ability of patients to be reimbursed by third-party payors.

The cost of medical care is funded, in substantial part, by government insurance programmes, such as Medicare and Medicaid in the U.S., and private and corporate health insurance plans. The healthcare business's success depends on the ability of patients who are prescribed CPAP therapy to obtain adequate reimbursement from these third-party payors for purchasing the healthcare business's CPAP products. In some of the healthcare business's major markets, such as Australia, the United Kingdom and Japan, there is currently limited reimbursement for devices that treat obstructive sleep apnea. The healthcare business cannot assure shareholders that its products will be considered cost-effective by third-party payors, that reimbursement will be available or, if currently available, will continue to be available, or that changes in payors' reimbursement policies will not adversely affect the healthcare business's ability to sell its products on a profitable basis, if at all. Third-party payors may deny reimbursement if they determine that the prescribed device has not received appropriate clearance from the U.S. Food and Drug Administration, known as the FDA, or other governmental regulatory clearances, is not used in accordance with cost-effective treatment methods as determined by the payor, or is experimental, unnecessary or inappropriate.

Furthermore, third-party payors are increasingly challenging the prices charged for medical products and services. Also, the trend towards managed healthcare in the U.S. and the concurrent growth of health maintenance organisations, which could control or significantly influence the purchase of healthcare services and products, as well as legislative proposals to reform healthcare, may all result in lower prices for the healthcare business's products. The cost containment measures that healthcare providers are instituting in the face of the uncertainty and the ultimate effect of any healthcare reform could have an adverse effect on the healthcare business's ability to sell its products and harm the healthcare business.

The healthcare business depends on single-source suppliers for some key components of its products.

The healthcare business purchases a limited number of components for its products from a single-source supplier. Although Fisher & Paykel Healthcare believes that it could locate an alternative supplier or other satisfactory alternatives for these components, if required, it cannot assure shareholders that it would be able to do so in a timely manner or at reasonable prices, if at all, or that it could obtain adequate quantities to meet its production needs during a prolonged interruption of supply. The healthcare business has historically purchased selected components from a single-source supplier where it is able to generate cost savings without compromising quality. The healthcare business does not have long-term supply contracts for the raw materials it requires. A reduction or stoppage in supply, or its inability to develop alternate supply sources, if required, would limit the healthcare business's ability to manufacture some of its products and therefore would harm the healthcare business.

The healthcare business manufactures its products at a single facility in New Zealand.

The healthcare business manufactures its products at a single facility located in Auckland, New Zealand. Although the healthcare business maintains stores of inventory at leased warehouses in several countries around the world, its inability to continue to manufacture its products at this facility as a result of, for example, a prolonged power shortage, fire or other natural disaster, would prevent the healthcare business from supplying products to customers, and could harm the healthcare business.

Complying with extensive government regulation relating to medical devices is an expensive and time-consuming process and Fisher & Paykel Healthcare's failure to comply may result in substantial penalties.

The development, manufacture and marketing of the healthcare business's products are subject to extensive and rigorous regulation by governmental agencies in the countries in which it sells its products, including the FDA in the U.S. The process of obtaining and maintaining the required regulatory approvals for medical devices in the markets in which the healthcare business sells products, particularly the U.S., Europe and Japan, can be lengthy and is expensive, and the outcome is often unpredictable. The healthcare business cannot assure shareholders that its current market clearances can be maintained or that approvals in the U.S. will be granted for its future products on the basis of Section 510(k) clearances from the FDA. The regulatory process may delay the healthcare business in marketing new products for lengthy periods, resulting in it incurring substantial additional costs and providing an advantage to competitors.

The healthcare business is subject to FDA Good Manufacturing Practices and extensive record keeping and reporting requirements for sales in the U.S. The healthcare business's manufacturing facilities are subject to periodic inspections by U.S. federal agencies and may be subject to similar inspections by corresponding agencies in other countries. The healthcare business's new manufacturing facilities in New Zealand have not yet been inspected by the FDA. Failure to comply with applicable regulatory requirements can result in, among other things, import detentions, fines, civil penalties, suspensions or losses of approvals, recalls or seizures of products, operating restrictions and criminal prosecutions.

Changes in existing regulations or the manner in which they are implemented or the adoption of new regulations could prevent the healthcare business from obtaining, or delay the timing of, future regulatory approvals. The healthcare business cannot assure shareholders that new legislation or regulations, changes in the interpretation or enforcement of existing regulations, or other regulatory factors will not adversely affect its ability to obtain regulatory approvals, and the potential for future growth.

A product recall may have a material adverse effect on the healthcare business.

Governmental authorities in the countries in which the healthcare business sells its products, including the FDA in the U.S., have the authority to require it to recall products in the event of material deficiencies or defects in design or manufacture. The healthcare business has on occasion either voluntarily decided, or been required as a result of communications with regulators, to recall limited numbers of its products. A government mandated or voluntary product recall by the healthcare business could occur as a result of component failures, manufacturing errors or design defects in its products. A significant recall of products could be costly and have a material adverse effect on the healthcare business's reputation and ability to retain existing customers and attract new customers.

The healthcare business may be subject to product liability claims.

The healthcare business has in the past and may in the future be subject to product liability claims as a result of the design, manufacture and marketing of its medical devices. Claims alleging product liability may involve large potential damages, significant defence costs and associated adverse publicity. The healthcare business cannot assure shareholders that its insurance coverage will be adequate to cover any significant future claims. Insurance varies in cost, can be difficult to obtain and may not be available in the future in an amount or on terms acceptable to the healthcare business, or at all. A successful claim against the healthcare business in excess of its insurance coverage could have a material adverse effect on its reputation and business.

The healthcare business depends on key members of its senior management. Any difficulty in retaining current senior management or in hiring new employees would adversely affect the ability to operate the healthcare business.

The healthcare business is managed by a small number of key senior managers. The loss of any of these individuals could materially affect the healthcare business. The healthcare business's success depends on its ability to continue to attract, recruit and retain sufficient qualified scientific, technical, sales and marketing, managerial and administrative personnel as it grows. Competition for qualified personnel in the countries the healthcare business operates in is strong, and there is generally a limited number of persons with the requisite experience in the sectors in which it operates. The healthcare business cannot assure shareholders that it will be able to retain senior management, integrate new managers or recruit qualified personnel in the future.

A relatively large portion of Fisher & Paykel Healthcare's sales are made through distributors with whom the healthcare business generally does not have long-term contracts, and the loss of these distributors could therefore reduce its sales and market share.

The healthcare business has a network of approximately 100 distributors in over 90 countries worldwide. Approximately 30 percent of the healthcare business's revenue for the financial year ended 31 March 2001 was attributable to sales to these distributors. The healthcare business's two largest distributors, Allegiance Corporation, which distributes its products in the U.S., Canada, Italy and Spain and Tokibo Co. Ltd, which distributes its products in Japan and China, accounted for approximately 14 percent and 7 percent of the healthcare business's revenue, respectively, during that financial year. Contracts with the healthcare business's distributors are generally for only a one-year period. The loss of one of these, or several of the healthcare business's other significant distributors, could reduce their sales and market share.

The international scope of the healthcare business's operations exposes it to operational, political and other risks that may harm its business.

The healthcare business sells its products in over 90 countries worldwide. Sales outside of New Zealand accounted for approximately 95 percent of the healthcare business's revenue in the financial year ended 31 March 2001. The healthcare business expects that sales outside of New Zealand will account for an increasing proportion of its revenue in the future.

The healthcare business may face risks because it conducts an international business, including:

- fluctuations in foreign currencies;
- regulatory restrictions or prohibitions on the distribution of its products;
- tariffs and other trade barriers;
- longer payment cycles;
- problems in collecting accounts receivable;
- international monetary conditions and political risks; and
- potentially adverse tax consequences of operating in multiple jurisdictions.

Dividend policy

The payment and amount of dividends will be decided by the board of Fisher & Paykel Healthcare. It is the current intention of the directors of Fisher & Paykel Healthcare to distribute dividends in accordance with the following dividend policy:

- Approximately 60 percent of net profit after tax will be paid out as dividends.
- Dividends will be paid in the period following that to which they relate, with the dividend payout dates being November and June of each year.

The first dividend available to Fisher & Paykel Healthcare shareholders is expected to be paid in June 2002 which will be the final dividend for financial year ending 31 March 2002.

To the extent they are available, it is the intention of the board to attach imputation credits to dividends.

The payment and amount of any future dividends will be at the discretion of the board after taking into account various factors the board deems relevant. These factors may include Fisher & Paykel Healthcare's financial condition, operating results, current and anticipated cash needs, plans for expansion and debt covenants. Dividends would be paid in New Zealand dollars.

Under the imputation regime New Zealand tax paid by the company gives rise to imputation credits that can be attached to dividends paid to shareholders. New Zealand tax resident shareholders can use these imputation credits to reduce their income tax liability in respect of that dividend. The amount of the dividend and the imputation credit must be included in a New Zealand tax resident shareholder's income tax return. To the extent that dividends have less than the maximum allowable imputation credits attached, those dividends will be subject to resident withholding tax at the rate of 33 percent. A shareholder on the top marginal rate of 39 percent may have an additional tax liability depending on their total gross income from all sources in an income year.

If a shareholder has a certificate of exemption from resident withholding tax this should be provided to Fisher & Paykel Healthcare.

Non-resident shareholders receiving dividends will generally be subject to non-resident withholding tax. Fisher & Paykel Healthcare generally expects to pay supplementary dividends to non-resident shareholders pursuant to the foreign investor tax credit regime to reduce or eliminate the economic impact of statutory withholding taxes for those non-residents.

Shareholders' rights

Set out below is certain information concerning Fisher & Paykel Healthcare Corporation shares and certain provisions of the Fisher & Paykel Healthcare Corporation constitution (the "Constitution") and other relevant New Zealand laws. The following description does not purport to be complete and is qualified in its entirety by the provisions of the Companies Act 1993 and by the Constitution.

GENERAL

After completion of the Separation Arrangement Fisher & Paykel Healthcare Corporation will have approximately 99.7 million fully paid ordinary shares on issue.

Each holder of a Fisher & Paykel Healthcare Corporation share will then have the right to:

- Attend and, subject to the prohibitions in the NZSE Listing Rules and the Constitution, vote at a meeting of shareholders including, on a poll, the right to cast one vote for each Fisher & Paykel Healthcare Corporation share held.
- An equal amount (on a per share basis) with other Fisher & Paykel Healthcare Corporation shareholders of all dividends authorised by the board in respect of the shares.
- An equal amount (on a per share basis) with other Fisher & Paykel Healthcare Corporation shareholders of any surplus assets distributed on liquidation of Fisher & Paykel Healthcare Corporation.
- Be sent shareholder information relating to Fisher & Paykel Healthcare Corporation.
- Any other rights as a Fisher & Paykel Healthcare Corporation shareholder conferred by the Companies Act 1993 and the Constitution.

CONSTITUTION

Fisher & Paykel Healthcare Corporation's organisational document is its Constitution. See "Places of inspection of documents" on page 54 for details as to where a copy of the Constitution is available for inspection.

The Constitution, in conjunction with the Companies Act 1993 and the NZSE Listing Rules, embodies the regulations for the administration and operation of Fisher & Paykel Healthcare Corporation, including the method of appointment, powers and duties of directors, the rights and obligations of shareholders and other procedural matters such as the convening and conduct of shareholder meetings, the issue of new shares and the transfer of existing shares. So long as Fisher & Paykel Healthcare Corporation is listed on the NZSE, Fisher & Paykel Healthcare Corporation and the Constitution must comply with the NZSE Listing Rules as in effect from time to time, subject to any exemption or waiver granted by the NZSE. Failure to comply with the NZSE Listing Rules may result in delisting or enforcement action by the NZSE or Fisher & Paykel Healthcare Corporation's shareholders. It is possible to obtain NZSE waivers authorising any act or omission which would otherwise be in contravention of the NZSE Listing Rules, unless a contrary intention appears in the Constitution.

MEETINGS OF SHAREHOLDERS

Fisher & Paykel Healthcare Corporation is required to hold an annual meeting of shareholders not later than six months after the date of Fisher & Paykel Healthcare Corporation's financial year end and within 15 months of the date of the preceding annual meeting.

Notice of an annual meeting must be sent to shareholders at least 10 working days before the meeting. The board must send to every shareholder, at least 20 working days before the date fixed for an annual meeting, a copy of the annual report for Fisher & Paykel Healthcare Corporation.

The annual report must include:

- the statutory consolidated financial statements of Fisher & Paykel Healthcare Corporation and its subsidiaries;

Shareholders' rights *continued*

- a report by the board on any changes in the nature of Fisher & Paykel Healthcare Corporation's business which would have a material impact on the state of affairs of Fisher & Paykel Healthcare Corporation and its subsidiaries as a group; and
- certain other information required by the Companies Act 1993 and the NZSE Listing Rules.

The board may convene a special meeting of shareholders at any time. The board must convene a special meeting of shareholders upon the receipt of a written request from shareholders who hold shares carrying together not less than 5 percent of the voting rights entitled to be exercised on the matter in respect of which the meeting is called. Notice of a special meeting must be sent to shareholders at least 10 working days before the meeting.

The quorum for a meeting of shareholders is present if six or more shareholders or their proxies or representatives are present.

VOTING

Voting at a meeting of shareholders is by show of hands or by voice (at the Chairperson's discretion) unless a poll is duly demanded. On a show of hands each shareholder who is present in person or by proxy or by an authorised representative has one vote. On a poll each shareholder present in person or by proxy or by an authorised representative has one vote for each fully paid share held.

A poll may be called by:

- the Chairperson of the meeting;
- not less than five shareholders having the right to vote at the meeting;
- a shareholder or shareholders representing not less than 10 percent of the total voting rights of all shareholders having the right to vote at the meeting; or
- by a shareholder or shareholders holding shares in Fisher & Paykel Healthcare Corporation which confer a right to vote at the meeting which are paid up to an aggregate amount of at least 10 percent of the total amount paid up on all shares that confer that right.

Under the Companies Act 1993, an ordinary resolution requires the affirmative vote of shareholders holding not less than a majority of the votes cast and a special resolution requires the affirmative vote of not less than 75 percent of the votes cast. The appointment and removal of directors, certain issues of new shares and appointment of auditors must be approved by ordinary resolution.

Amendments to the Constitution (including amendments which alter the rights attaching to the shares), any transaction involving the acquisition or disposition of assets or the incurring of liabilities, the value of which is more than half the value of Fisher & Paykel Healthcare Corporation's assets prior to the transaction ("major transaction"), certain amalgamations and the voluntary liquidation of Fisher & Paykel Healthcare Corporation must be approved by special resolution.

Under New Zealand law shareholders who are not residents of New Zealand may hold, vote and transfer their shares in the same manner as New Zealand residents.

The NZSE Listing Rules may prohibit a shareholder from voting in favour of resolutions approving certain issues of shares to, or buy backs of shares from, or transactions with or benefiting, the shareholder or an associated person of such shareholder. They also prohibit shareholders who are directors or associated persons of Fisher & Paykel Healthcare Corporation or its directors from voting in certain circumstances where they may receive greater benefit if the resolution is approved than other shareholders.

Shareholders' rights *continued*

APPOINTMENT AND RETIREMENT OF DIRECTORS

The board is elected by the shareholders of Fisher & Paykel Healthcare Corporation by ordinary resolution. The board may also appoint directors to fill casual vacancies that occur or to add additional persons to the board up to the maximum number prescribed by the Constitution. At each annual meeting of the shareholders, all directors appointed by the board must retire. In addition, at least one third of the other directors must retire from office (other than any managing director). The directors who retire are those directors (other than any managing director) who have held office longest since their last appointment or reappointment. A retiring director is generally eligible for re-election except where precluded by disqualification.

DISTRIBUTIONS

A "distribution" is the direct or indirect transfer of any money or property (other than shares in Fisher & Paykel Healthcare Corporation) to or for the benefit of a shareholder or the incurring of a debt to or for the benefit of a shareholder in each case in relation to shares held by the shareholder. The term "distribution" therefore includes a dividend.

The board, if satisfied on reasonable grounds that Fisher & Paykel Healthcare Corporation will immediately after the distribution satisfy the statutory solvency test, may authorise distributions to shareholders at such times and in such amounts as it thinks fit. There is no requirement for shareholder approval of distributions. For the statutory solvency test to be satisfied, Fisher & Paykel Healthcare Corporation must be able to pay its debts as they become due in the normal course of business, and the value of Fisher & Paykel Healthcare Corporation's assets must be greater than the value of its liabilities (including contingent liabilities).

Except with the prior approval of all shareholders, the board may not differentiate between shareholders as to the form in which a dividend is paid other than as to currency of payment. The board may not authorise a disproportionate dividend to some shareholders unless such disproportionate distribution reflects the differing liabilities of the shareholders to Fisher & Paykel Healthcare Corporation or the distribution is a supplementary dividend to non-resident shareholders who qualify for the supplementary dividend in terms of the Income Tax Act 1994. The amount of the supplementary dividend will be calculated in accordance with the applicable provisions of the Income Tax Act 1994.

Entitlement to receive a distribution is dependent upon a shareholder being on Fisher & Paykel Healthcare Corporation's share register on the date set by the board as the date for determining entitlement to the distribution.

See "Dividend policy" on page 42 for a discussion of Fisher & Paykel Healthcare Corporation's dividend policy.

All cash dividends paid by Fisher & Paykel Healthcare Corporation will be in New Zealand dollars. The New Zealand dollar is freely convertible into other currencies at floating exchange rates.

LIQUIDATION RIGHTS

In the event of a liquidation of Fisher & Paykel Healthcare Corporation, the assets of Fisher & Paykel Healthcare Corporation shall be applied to satisfy its liabilities. After payment of liabilities, and after provision has been made for any shares having a preference on a liquidation of Fisher & Paykel Healthcare Corporation, the holders of shares shall receive a share of any surplus assets in proportion to:

- the number of shares held by them; or
- if Fisher & Paykel Healthcare Corporation issues shares in the future which are not fully paid up, in the case of those shares, the amounts paid up on those shares.

Shareholders' rights *continued*

FORM AND TRANSFER OF ORDINARY SHARES

Shares are transferred by the entry of the name of the transferee on Fisher & Paykel Healthcare Corporation's share register. The board may refuse or delay registration of a transfer in certain circumstances including if the transfer is not accompanied by documentation establishing entitlement to the transfer (if any), registration of the transfer would result in the proposed transferee holding securities of less than the minimum holding set by the NZSE or Fisher & Paykel Healthcare Corporation has a lien on the shares sought to be transferred. Fisher & Paykel Healthcare Corporation may sell shares held by a holder with less than the minimum holding set by the NZSE after due notice.

There are no restrictions imposed on the disposal of the effective ownership and control of any of the shares in Fisher & Paykel Healthcare Corporation. However, the transfer of significant shareholdings in Fisher & Paykel Healthcare Corporation may be subject to restrictions set out in applicable legislation, including the Takeovers Code and the Overseas Investment Regulations.

SHARE REGISTRAR

The Share Registrar for the shares will be Computershare Registry Services Limited, Private Bag 92119, Auckland 1020.

Principal shareholders

On 31 August 2001 the names of the persons who are the registered holders of the 10 largest holdings of shares of Fisher & Paykel Industries Limited and the amounts of their respective holdings were:

Shareholder	Number of ordinary shares held
1. New Zealand Central Securities Depository Limited[(1)]	71,369,436
2. John William Gilks and Sir Colin James Maiden[(2)]	3,785,000
3. Caledonia Investments Limited	2,402,104
4. LFG Holdings Limited	1,495,000
5. Maurice Paykel and Nigel Thomas Evans[(3)]	1,341,823
6. Gurshon Fisher	1,051,599
7. Gurshon Fisher (Gus Fisher Family Account)	1,011,678
8. Joyce Fisher, Anthony John James Agar, Graeme Louis Collinson and Noel Stuart Robinson	1,006,640
9. Joyce Fisher	778,633
10. Gary Albert Paykel, Dorothy Mary Paykel and John William Alexander Burns	704,563

(1) New Zealand Central Securities Depository Limited provides a custodial service to institutional shareholders.
(2) These shares are held by Mr Gilks and Sir Colin Maiden as trustees of the New Zealand Executive Share Purchase Plan.
(3) These shares are held by Messrs Paykel and Evans as trustees of the Woolf Fisher Charitable Trust.

None of these shareholders, nor any other party, undertakes any liability in respect of the Separation Arrangement or guarantees the Fisher & Paykel Healthcare Corporation Limited shares.

Other information

ONGOING RELATIONSHIPS

Upon completion of the Separation Arrangement (including the U.S. Healthcare Offer), Fisher & Paykel Appliances Holdings Limited will hold slightly less than 20 percent of the shares in Fisher & Paykel Healthcare Corporation. This reflects a desire by both companies to maintain the benefits of a relationship between the companies and to allow for the continuation of joint purchasing initiatives and technology sharing.

LOCK-UP

In connection with the underwriting of the U.S. Healthcare Offer, Fisher & Paykel Appliances Holdings Limited, the Directors of Fisher & Paykel Industries Limited and the directors and senior management of Fisher & Paykel Healthcare Corporation will, subject to certain exceptions, agree with the underwriters not to sell or otherwise dispose of their shareholdings in Fisher & Paykel Healthcare Corporation for a period of 180 days after completion of the Separation Arrangement without the prior written consent of the underwriters.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Information Memorandum contains certain forward-looking statements. Such forward-looking statements are predictive in nature and are subject to a number of risks and uncertainties relating to Fisher & Paykel Healthcare Corporation, its operations, the markets in which it competes and other factors (some of which are beyond the control of Fisher & Paykel Healthcare Corporation). Accordingly, actual results and conditions may differ materially from those expressed or implied by such forward-looking statements. For a summary of important factors that may cause actual results and conditions to differ from those expressed or implied by such forward-looking statements see "Risk factors" on page 36.

DIRECTORS' DUTIES AND INTERESTS

Under New Zealand law, the directors owe statutory duties to Fisher & Paykel Healthcare Corporation. The directors must exercise their powers and perform their duties in good faith and in what they consider to be in the best interests of Fisher & Paykel Healthcare Corporation. This duty applies in relation to all transactions proposed to be entered into by Fisher & Paykel Healthcare Corporation, including those with affiliated parties of Fisher & Paykel Healthcare Corporation, directors or other parties. The Companies Act 1993 also requires directors interested, whether directly or indirectly, in a proposed transaction to disclose the nature and extent of their interest to the board, and, except in certain limited circumstances, interested directors are not counted for the purposes of a quorum and are prohibited from voting on a matter relating to that transaction.

CORPORATE GOVERNANCE

Role of the board

The board of directors of Fisher & Paykel Healthcare Corporation will supervise the management of Fisher & Paykel Healthcare Corporation. The board establishes Fisher & Paykel Healthcare Corporation's objectives, determines strategies for achieving these objectives, sets the overall policy framework within which the business of Fisher & Paykel Healthcare Corporation is conducted other than affairs for which New Zealand law or the Constitution requires shareholder approval. The board will delegate the day-to-day management responsibilities of Fisher & Paykel Healthcare Corporation to the chief executive officer of Fisher & Paykel Healthcare Corporation. The board will monitor performance of this delegation.

The Constitution does not contain any provisions limiting the borrowing power of the Company, except to the extent that borrowings would constitute entry into a major transaction, as defined in the Companies Act 1993 or a material transaction with a related party, as defined in the NZSE Listing Rules. The Constitution provides that, except in limited circumstances, the board may not, without the prior approval of shareholders:

- enter into transactions with related parties;
- buy or sell assets the value of which exceeds a specified threshold;
- enter into transactions which will change the essential nature of Fisher & Paykel Healthcare Corporation's business;
- issue or buy back shares; or

- provide financial assistance in connection with the acquisition of the Company's shares.

In addition, under the Companies Act 1993, "major transactions" must be approved by a special resolution of Fisher & Paykel Healthcare Corporation shareholders.

The Companies Act 1993 and the NZSE Listing Rules contain a number of other provisions which could have the effect or consequence, in certain circumstances, of restricting the powers of the directors of the company. These provisions are common to all companies registered under the Companies Act 1993 and listed on the NZSE.

Upon completion of the Separation Arrangement Fisher & Paykel Healthcare Corporation Limited will be party to a negative pledge agreement which will contain certain covenants, on terms usual for such agreements, which will restrict the company's ability to borrow and charge its assets in certain circumstances.

The quorum of the board will be four of its members and a resolution can be passed by a majority vote. Any directors who have an interest in a transaction that is the subject of a resolution must disclose to the board the nature and, if possible, value of that interest. Except in limited circumstances, interested directors will not be counted for purposes of a quorum and will not be able to exercise their voting rights in connection with that resolution.

Board membership

The Fisher & Paykel Healthcare Corporation board of directors will be comprised of seven directors. Mr Gary Paykel, Mr Gillanders and Sir Colin Maiden are currently Directors of Fisher & Paykel Industries Limited (to be renamed Fisher & Paykel Healthcare Corporation Limited). The additional directors, named on pages 4 and 5 of this Information Memorandum, will be appointed by the existing board to fill casual vacancies and, except Mr Daniell who will be managing director and chief executive officer, will retire and offer themselves for re-election by shareholders at the 2002 Annual Shareholders Meeting of Fisher & Paykel Healthcare.

Board committees

There will be two formally constituted sub-committees of the board, the Audit Committee and the Remuneration Committee.

The Audit Committee will be responsible for overseeing financial, accounting and audit activities of Fisher & Paykel Healthcare Corporation. This will include reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of the external auditors, and reviewing and making recommendations on the financial statements and financial and accounting policies.

The Remuneration Committee will be responsible for reviewing and recommending to the board the remuneration packages for senior executives and will be responsible for reviewing policies relating to compensation of, and benefits for, employees.

Organisational structure

The board will delegate to the chief executive officer of Fisher & Paykel Healthcare Corporation the conduct of the day-to-day affairs and management responsibilities of Fisher & Paykel Healthcare Corporation. There will be a defined organisational structure with clear lines of responsibility and delegation of authority. Management responsibility will be supplemented by a Policies & Procedures Manual. The chief executive officer of Fisher & Paykel Healthcare Corporation will recommend to the board any changes to the business, performance goals, strategies and policies.

Clearly defined financial authority will be delegated to management and policies will be in place with respect to the principal operational aspects of Fisher & Paykel Healthcare Corporation.

Internal financial control

The board will have overall responsibility for Fisher & Paykel Healthcare Corporation's systems of internal financial control. The directors will establish key procedures that are designed to provide effective internal financial control, and a management structure that defines lines of reporting responsibility and clear operating procedures.

Annual budgets and longer term strategic plans will be prepared and approved by the board.

Financial statements will be prepared monthly and reviewed by the board progressively throughout the year to monitor management's performance against budget goals and objectives.

Other information *continued*

Fisher & Paykel Healthcare Corporation will have a structured framework for capital expenditure including appropriate authorisation and approval levels which place a high emphasis on the commercial logic for an investment.

The board will also review areas of financial risk and the effectiveness of systems of internal financial control with the external auditors.

Appointment and retirement of directors

As a result of the Separation Arrangement, no director will have been appointed or is intended to be appointed to the board of Fisher & Paykel Healthcare Corporation in a manner that is materially different from that specified in sections 153 and 155 of the Companies Act 1993.

As a result of the Separation Arrangement, no person (other than the shareholders of Fisher & Paykel Healthcare Corporation in annual meeting, or the directors of Fisher & Paykel Healthcare Corporation acting as a board to fill a casual vacancy) will have the right to appoint a director of Fisher & Paykel Healthcare Corporation. Upon completion of the Separation Arrangement, Fisher & Paykel Appliances Holdings Limited will not have a right to appoint any director to the board of Fisher & Paykel Healthcare Corporation. Subject to approval of the board, a director has the power to appoint a person to act as an alternate director in his or her place.

In accordance with the rotation provisions of the Constitution, at an annual shareholders' meeting of Fisher & Paykel Healthcare Corporation, one-third of the board (other than the managing director) and any casual appointees of the Board will be required to retire from office but are eligible for re-election.

Fisher & Paykel Healthcare Corporation may choose to indemnify its directors and employees from time to time for some limited liabilities or costs incurred in connection with the performance of their duties, or to purchase insurance against liabilities and costs incurred by directors and employees.

Directors' interests

Under its constitution Fisher & Paykel Industries is permitted to make a payment to a non-executive director or former director by way of lump sum on or in connection with the retirement or cessation of office of that director provided that the total amount of payment does not exceed the total remuneration of the director in his or her capacity as a director in any three years chosen by the Board, or the payment is authorised by ordinary resolution.

Upon completion of the Separation Arrangement, Messrs Gilks, Geary, M Paykel and Rowlands will retire from the board of directors. As provided for by the constitution, Fisher & Paykel Industries has agreed to pay Mr Gilks (Deputy Chairman) $127,500 and each of the other retiring directors $85,000 as a retirement benefit, being the equivalent of the last three years' directors fees for each of them.

Sir Colin Maiden has agreed to continue as a director of Fisher & Paykel Healthcare Corporation for a period of three years from the completion of the Separation Arrangement until the company's annual shareholders meeting to be held in 2004. As provided for by the Constitution, Fisher & Paykel Industries has agreed to pay Sir Colin Maiden (Chairman) a retirement benefit of $170,000 (being the equivalent of three years' directors fees) on his retirement or cessation from office from the board of directors on or before the company's annual shareholders meeting in 2004.

Fisher & Paykel Healthcare Corporation will be responsible for making these payments.

Upon completion of the Separation Arrangement, apart from the above and as set out below, no director (other than executive directors) of Fisher & Paykel Healthcare Corporation will be entitled to remuneration from Fisher & Paykel Healthcare Corporation or any other company in the Fisher & Paykel Healthcare group other than by way of directors fees (including any fees as a member or chair of any committee of the board) paid in cash.

Consultancy Arrangements

Fisher & Paykel Industries has agreed, upon completion of the Separation Arrangement to retain some key members of the senior management team as consultants to Fisher & Paykel Healthcare Corporation or Fisher & Paykel Appliances Holdings Limited or both of them.

Other information *continued*

Mr Gillanders will become a consultant to Fisher & Paykel Healthcare Corporation and to Fisher & Paykel Appliances Holdings Limited for a period of two and a half days per week per company. The consultancy will continue for three years for an annual compensation of $200,000 per company.

Mr Henry will become a consultant to Fisher & Paykel Healthcare Corporation and to Fisher & Paykel Appliances Holdings Limited for a period of 52 days per year per company. The consultancy will continue for two years for an annual compensation of $75,000 per company.

Mr Williams will become a consultant to Fisher & Paykel Appliances Holdings Limited for a period of two years at an annual compensation of $104,000.

In addition, Mr Gary Paykel will become non-executive chairman of Fisher & Paykel Healthcare Corporation and receive directors fees in that capacity. Mr Paykel will also become executive chairman of Fisher & Paykel Appliances Holdings Limited. In addition to directors fees, he will receive annual compensation from Fisher & Paykel Appliances Holdings Limited of $300,000 in this role for a period of three years.

Directors fees

Directors fees of up to $400,000 per annum have been recommended for approval at the Annual Shareholders Meeting.

Upon completion of the Separation Arrangement, directors will be entitled to be paid for reasonable travelling, accommodation and other expenses incurred by a director in connection with his or her attendance at meetings or otherwise in connection with the business of Fisher & Paykel Healthcare Corporation.

INCORPORATION DETAILS

Fisher & Paykel Industries Limited (to be renamed Fisher & Paykel Healthcare Corporation Limited) was incorporated under the Companies Act 1933 on 27 July 1954 and reregistered under the Companies Act 1955 on 1 January 1957 and the Companies Act 1993 on 9 September 1996. The company number is AK51516.

EMPLOYEE SHARE SCHEMES

Employee share schemes prior to the Separation Arrangement

Fisher & Paykel Industries Limited has three share schemes for employees. No additional shares will be issued under these existing schemes. Pursuant to the Separation Arrangement, participants in the schemes will, through the relevant trustees, receive Fisher & Paykel Appliances Holdings Limited shares and cash in the same way as Fisher & Paykel Industries Limited shareholders. These shares will be treated under the schemes in the same way as the related Fisher & Paykel Industries Limited shares. The cash will be applied towards repaying outstanding loans or purchasing shares in Fisher & Paykel Appliances Holdings Limited and Fisher & Paykel Healthcare Corporation in the separation proportions. The existing schemes are as follows:

New Zealand employee share purchase scheme. Under the trust deed for the New Zealand employee share purchase scheme, dated as of 15 October 1979, full-time New Zealand employees of the Fisher & Paykel group were eligible to purchase Fisher & Paykel Industries Limited shares at a 20 percent discount to market value. Eligible employees receive interest-free loans from Fisher & Paykel Industries Limited to cover the purchase price of the shares for which they subscribe. The loan is repaid through periodic deductions from salary. The scheme is administered by trustees, who subscribe for shares and hold them in trust for each employee participant. The participating employee's entitlement to the shares vests three years from the date of acquisition by the trustees. Employee participants are not permitted to transfer their scheme shares to third parties. Dividends are paid to employees in respect of shares purchased under the scheme.

Once vested, an employee participant may elect to transfer the shares into his or her own name, after which they will be freely transferable, or for the trustees to repurchase the shares at the lesser of market price and the price at which the trustees acquired the shares. If an employee participant ceases to be employed by the Fisher & Paykel group before the shares vest due to death, accident, sickness, redundancy or retirement at the normal retirement age, the employee or his

Other information *continued*

or her personal representative may elect to transfer the shares into his or her own name or for the trustees to repurchase the shares at the lesser of market price and the price at which the trustees acquired the shares, subject to repaying any outstanding loans. Employee participants who cease to be employed by the Fisher & Paykel group before the shares vest for any other reason, or who elect to withdraw from the scheme on three months' notice, must sell their shares back to the trustees at the lesser of market price or the trustees' acquisition price, and repay any outstanding loans.

Australian employee share scheme. This scheme applies to Australian employees and has substantially similar terms to the New Zealand scheme, except that shares of employee participants who cease to be employed by the Fisher & Paykel group in certain circumstances will remain in the scheme for the remainder of the vesting period, after which the participant may have the shares transferred to his or her own name or have the shares sold by the trustees.

Executive share purchase scheme. Executive employees and executive directors of the Fisher & Paykel group companies were eligible to participate in an executive share purchase scheme, dated as of 2 December 1983, under which eligible participants may receive interest-bearing loans from Fisher & Paykel Industries Limited to acquire Fisher & Paykel Industries Limited shares. Under the terms of the scheme, the shares may be purchased at a discount to the market value. Shares for which participants subscribe are held in trust by trustees, and ownership generally vests in the employee participant eight years from the 31 March following purchase. The terms of the scheme relating to the effect of a participant ceasing to be employed by the Fisher & Paykel group before the shares vest are substantially the same as for the New Zealand employee share purchase scheme. Dividends paid in respect of shares purchased under the scheme may be paid to the participant or applied in repayment of the loan, at the election of Fisher & Paykel Industries Limited.

Employee share schemes and Share Option Plan following the Separation Arrangement

As part of the Separation Arrangement, Fisher & Paykel Industries Limited proposes to establish the following new share schemes for employees, as outlined below.

2001 Share Option Plan. Fisher & Paykel Industries intends to establish the 2001 Share Option Plan, effective prior to completion of the Separation Arrangement, for selected executives, managers and other selected employees working in the healthcare business. Under the Plan, the board of directors may make annual grants of options to plan participants to subscribe for ordinary shares at an exercise price per share equal to the market value of a share on the date of option grant.

One third of the options granted pursuant to the 2001 Share Option Plan on a particular grant date become exercisable on each of the second, third and fourth anniversaries of the grant date and all unexercised options expire on the fifth anniversary of the grant date. Options also become exercisable if a person (or a group of persons acting in concert) acquires more than half of the ordinary shares on issue. On leaving employment due to death, serious illness, accident, permanent disablement, redundancy or other circumstances as determined by the board of directors the participant or, if applicable, the participant's executor will have one month to exercise all outstanding options. On a termination of employment for any other reason all outstanding vested and unvested options will lapse.

The board of directors will be given a discretion to adjust options to achieve equivalent treatment as between participants and shareholders in the event of a reconstruction of the share capital of Fisher & Paykel Industries.

Fisher & Paykel Industries intends to make an initial grant of options shortly prior to completion of the Separation Arrangement to selected employees of the healthcare business on the basis that those options will be cancelled if completion of the Separation Arrangement does not take place. The per share exercise price of those options initially granted will be equal to the New Zealand dollar per share equivalent of the initial public offering price of the ADSs offered in the U.S. Healthcare Offer. Thereafter, grants of options under the plan not exceeding 1 percent of the share capital of Fisher & Paykel Industries over any 12 month period may be made at the discretion of the board of directors, subject to applicable limitations set out in the Listing Rules of the NZSE. As part of the initial grant of options under the 2001 Share Option Plan the company expects to grant options to each of Messrs Daniell, Gradon, Shearer and Barclay as follows:

Other information *continued*

Name	Ordinary shares underlying options
Michael G. Daniell	250,000
Lewis G. Gradon	175,000
Paul N. Shearer	175,000
Antony G. Barclay	60,000
Total	660,000

The shares subject to the initial grant of options under this plan, plus the shares initially allocated under the proposed employee share purchase schemes as outlined below, will not exceed two percent of Fisher & Paykel Healthcare Corporation's issued capital.

2001 Universal share purchase schemes in New Zealand and Australia. Fisher & Paykel Healthcare Corporation proposes to adopt share purchase schemes prior to the completion of the Separation Arrangement. The schemes will be available to employees generally in New Zealand and Australia. These schemes will be based on the existing New Zealand employee share purchase scheme and Australian employee share scheme, respectively.

2001 Employee stock purchase scheme in the United States. Fisher & Paykel Healthcare Corporation also proposes to adopt the employee stock purchase scheme prior to the completion of the Separation Arrangement. Under this scheme, United States employees will have the opportunity to purchase shares in Fisher & Paykel Healthcare Corporation at a discount through the use of payroll deductions over specified periods of time. The scheme is intended to comply with the requirements of and to provide participants with tax benefits pursuant to Section 423 of the U.S. Internal Revenue Code.

The employee stock purchase scheme will be administered by the board of directors of Fisher & Paykel Healthcare Corporation. The board of directors may make rules and regulations and establish procedures for the administration of the employee stock purchase scheme, as it deems appropriate.

At the discretion of the board of directors, Fisher & Paykel Healthcare Corporation expects to offer each eligible employee the opportunity to purchase shares through regular payroll deductions using up to 10 percent of the employee's after-tax pay. Under the employee stock purchase scheme, the fair market value of the ordinary shares that may be purchased by any employee during the calendar year may not exceed US$25,000. Participating employees will be able to purchase shares on the last day of each six month purchase period during each one-year cycle, at a purchase price equal to the lesser of:

- 85 percent of the fair market value of a share on the date the cycle begins; and
- 85 percent of the fair market value of a share on the last day of the purchase period.

The right to purchase Fisher & Paykel Healthcare Corporation shares granted to a participant under the employee stock purchase scheme is transferable only by will or the laws of descent and distribution, and is exercisable during the participant's lifetime only by the participant.

RELEVANT TRANSACTIONS

There are no material contracts (not being contracts entered into in the ordinary course of business) that have been entered into by Fisher & Paykel Industries Limited (to be renamed Fisher & Paykel Healthcare Corporation Limited) or any of its subsidiaries in the three years prior to the date of this Information Memorandum other than the separation arrangement agreement and the underwriting agreement relating to the U.S. Healthcare Offer. These agreements are discussed in the Notice of Annual Shareholders Meeting.

In connection with the Separation Arrangement, Fisher & Paykel Healthcare Corporation has entered into a separation arrangement agreement with Fisher & Paykel Appliances Holdings Limited, which will own slightly less than 20 percent of Fisher & Paykel Healthcare Corporation's shares following the Separation Arrangement. The separation arrangement agreement provides, among other things, that:

Other information *continued*

- Any asset or liability held by Fisher & Paykel Healthcare Corporation after completion of the Separation Arrangement that is properly attributable to the appliances or finance businesses, other than the borrowings the healthcare business agreed to assume as part of the Separation Arrangement or any asset or liability held by Fisher & Paykel Appliances Holdings Limited or its subsidiaries that is properly attributable to the healthcare business, is to be transferred and assigned or novated to Fisher & Paykel Appliances Holdings Limited or Fisher & Paykel Healthcare Corporation, as the case may be. Until the transfer and assignment or novation occurs, the asset or liability is to be held on behalf of, and with the appropriate accountability to and indemnification from, Fisher & Paykel Appliances Holdings Limited or Fisher & Paykel Healthcare Corporation, as appropriate.
- Assets or liabilities for which no proper attribution can be determined will be attributed to each of Fisher & Paykel Appliances Holdings Limited and Fisher & Paykel Healthcare Corporation pro rata, in proportion to the respective values attributed to Fisher & Paykel Appliances Holdings Limited and Fisher & Paykel Healthcare Corporation upon completion of the Separation Arrangement unless they each agree to a different allocation.
- Fisher & Paykel Healthcare Corporation and Fisher & Paykel Appliances Holdings Limited have entered, or will enter, into agreements relating to ongoing sharing and co-operation arrangements concerning matters including the use of the name "Fisher & Paykel", land that will be owned by Fisher & Paykel Healthcare Corporation to which Fisher & Paykel Appliances Holdings Limited requires limited access, joint procurement, including product liability insurance arrangements, the sharing of technological developments in prescribed circumstances, the use of the domain names "fisherpaykel.com" and "fisher&paykel.com", Fisher & Paykel Healthcare Corporation continuing to administer loans under existing employee share schemes, two technology patents owned by Fisher & Paykel Appliances Holdings Limited that Fisher & Paykel Healthcare Corporation intends to use in its business, the retention of records and access to corporate information.
- Fisher & Paykel Healthcare Corporation and Fisher & Paykel Appliances Holdings Limited will use their best endeavours to distinguish their respective businesses from each other.
- Fisher & Paykel Healthcare Corporation will indemnify Fisher & Paykel Appliances Holdings Limited and its subsidiaries for all losses, damages, liabilities, claims, costs and expenses that may be incurred by it and any of its subsidiaries after completion of the Separation Arrangement relating to the healthcare business as carried on by Fisher & Paykel Industries Limited prior to completion of the Separation Arrangement and by Fisher & Paykel Healthcare Corporation after completion of the Separation Arrangement, and Fisher & Paykel Appliances Holdings Limited will similarly indemnify Fisher & Paykel Healthcare Corporation and its subsidiaries in relation to the operation of the appliances and finance businesses.

After completion of the Separation Arrangement, any claims made against Fisher & Paykel Healthcare Corporation that are properly attributable, in accordance with the separation arrangement agreement, to either the appliances or finance business would require Fisher & Paykel Healthcare Corporation to exercise its rights under the separation arrangement agreement to obtain payment or indemnification from Fisher & Paykel Appliances Holdings Limited. Fisher & Paykel Healthcare Corporation is exposed to the risk that, in these circumstances, Fisher & Paykel Appliances Holdings Limited cannot, or will not, make the required payment or indemnify Fisher & Paykel Healthcare Corporation. If this were to occur, Fisher & Paykel Healthcare Corporation could be harmed. See "Risk factors" on page 36.

PLACES OF INSPECTION OF DOCUMENTS

Copies of the public file in respect of Fisher & Paykel Industries Limited (to be renamed Fisher & Paykel Healthcare Corporation Limited), the Notice of Annual Shareholders Meeting and the Constitution, may be inspected on payment of any prescribed fee during normal business hours at the Companies Office, Business and Registries Branch, Ministry of Economic Development, Level 5, 3 Kingston Street, Auckland, New Zealand.

The separation arrangement agreement and the underwriting agreement, as discussed in the Notice of Annual Shareholders Meeting, are available for inspection at the offices of Fisher & Paykel Industries Limited at 78 Springs Road, East Tamaki, Auckland.

Glossary

The following terms have the meanings set out below when used in this document:

"Board" means the existing board of Directors of Fisher & Paykel Industries Limited;

"Directors" means the existing directors of Fisher & Paykel Industries Limited;

"Fisher & Paykel Healthcare Corporation" means Fisher & Paykel Healthcare Corporation Limited, formerly (i.e. prior to completion of the Separation Arrangement) Fisher & Paykel Industries Limited;

"NZ$"** and **"$" means New Zealand dollars;

"NZSE" means the New Zealand Stock Exchange;

"Separation Arrangement" means the Court approved arrangement to effect the separation of Fisher & Paykel Industries Limited's appliances and finance businesses and Fisher & Paykel Industries Limited's healthcare business into two listed companies and to undertake the U.S. Healthcare Offer, the key elements of which are described in the Separation Arrangement Plan set out as Schedule 1 to the separation arrangement agreement (and included within Annexure C to the Notice of Annual Shareholders Meeting), subject to any amendment or variation made in accordance with the separation arrangement agreement;

"Separation Date" means the date on which the appliances and finance businesses of Fisher & Paykel Industries Limited are acquired by Fisher & Paykel Appliances Holdings Limited under the Separation Arrangement;

"U.S." means the United States of America; and

"U.S. Healthcare Offer" means the offer and sale by Fisher & Paykel Appliances Holdings Limited, primarily to U.S. investors under a U.S. public offering registered with the U.S. Securities and Exchange Commission, as well as to certain qualifying investors in other selected jurisdictions, of approximately 18 percent of the shares of Fisher & Paykel Healthcare Corporation Limited outstanding immediately following the acquisition of the appliances and finance businesses of Fisher & Paykel Industries Limited by Fisher & Paykel Appliances Holdings Limited.

Important information about the historical financial statements and summaries

The audited consolidated financial statements and summaries set out in Annexures A and B contain financial information of Fisher & Paykel Industries Limited excluding the results, assets and liabilities and cashflows of the appliances and finance businesses. As such, they include the results, assets and liabilities and cashflows of the healthcare business and certain discontinued businesses (e.g., the Panasonic agency business). These financial statements and summaries have been derived from the audited financial statements of Fisher & Paykel Industries Limited.

The financial information in Annexures A and B has, where appropriate, been separated into line items relating to the "discontinued operations" and "continuing operations". The "continuing operations" line items represent the results, assets and liabilities and cashflows of the healthcare business, whereas the "discontinued operations" line items represent the other businesses of Fisher & Paykel Industries (other than the appliances and finance businesses), unrelated to the healthcare business. The appliances and finance businesses' results have been taken directly to equity and the net assets accounted for as a "Net investment in appliances and finance businesses" in the Statement of Financial Position.

To the extent that line items in the audited consolidated financial statements and summaries set out in Annexures A and B represent totals of "discontinued operations" and "continuing operations", they will not represent the results, assets and liabilities and cashflows of the healthcare business.

The financial position, results of operations and cashflows reflected in the "continuing operations" line items of the audited consolidated financial statements and summaries set out in Annexures A and B may differ from the actual results that may have been achieved by the healthcare business had it operated as a stand-alone business during the periods reported. Refer also to the "Basis of Preparation" sections in Annexures A and B on pages 61 and 79, respectively.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

CONSOLIDATED STATEMENTS OF FINANCIAL PERFORMANCE

FISHER & PAYKEL INDUSTRIES LIMITED excluding the appliances and finance businesses

For the year ended 31 March 2001

	Notes	**2001 $000**	2000 $000
Operating revenue from continuing operations		**193,090**	144,187
Operating revenue from discontinued operations		**116**	7,338
Operating revenue	1	**193,206**	151,525
Operating expenses from continuing operations		**113,267**	94,107
Operating profit from continuing operations		**79,823**	50,080
Interest		**(2,162)**	(1,230)
Foreign currency exchange profit (loss)		**(13,445)**	1,339
Unrealised loss on foreign currency instruments		**(47,397)**	–
Profit from continuing operations before taxation	2	**16,819**	50,189
Taxation	3	**(7,112)**	(17,777)
Profit from continuing operations after taxation		**9,707**	32,412
Discontinued operations			
Profit (loss) from discontinued operations	2	**(291)**	(1,062)
Taxation	3	**96**	351
Profit (loss) from discontinued operations after taxation		**(195)**	(711)
Profit		**9,512**	31,701
Profit excluding unrealised foreign exchange provision		**41,268**	31,701

The accompanying Accounting Policies and Notes form an integral part of the Financial Statements.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

CONSOLIDATED STATEMENTS OF MOVEMENTS IN EQUITY

FISHER & PAYKEL INDUSTRIES LIMITED excluding the appliances and finance businesses

For the year ended 31 March 2001

	Notes	**2001 $000**	2000 $000
Shareholders' equity at the beginning of the year		**385,933**	372,729
Profit		**9,512**	31,701
Revaluation of net investment in Appliances and Finance businesses	7	**(488)**	24,354
Movement in currency translation reserve	15	**1,216**	924
		10,240	56,979
Issue of share capital	15	–	3,414
Dividends	15	**(14,176)**	(47,189)
Shareholders' equity at the end of the year		**381,997**	385,933

The accompanying Accounting Policies and Notes form an integral part of the Financial Statements.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

FISHER & PAYKEL INDUSTRIES LIMITED excluding the appliances and finance businesses*

As at 31 March 2001

	Notes	**2001 $000**	2000 $000
Assets			
Current assets:			
Cash and bank balances		**5,174**	510
Debtors and prepayments	4	**36,637**	22,118
Inventories	5	**18,270**	16,476
Taxation	6	**8,593**	5,149
Net investment in appliances and finance businesses*	7	**326,903**	308,035
Total current assets		**395,577**	352,288
Non-current assets:			
Fixed assets	8	**58,914**	50,806
Employee Share Ownership Plans loans	9	**11,301**	13,166
Goodwill on consolidation		**2,955**	3,340
Deferred taxation	10	**379**	301
Total non-current assets		**73,549**	67,613
Total assets		**469,126**	419,901
Liabilities			
Current liabilities:			
Bank overdrafts	11	**1,367**	1,299
Trade creditors		**8,496**	7,379
Provisions	12	**27,751**	366
Term borrowings (current)	13	**7,219**	6
Taxation	6	**13,055**	14,033
Other liabilities	14	**7,351**	6,333
Total current liabilities		**65,239**	29,416
Term liabilities:			
Term borrowings	13	**1,703**	4,472
Provisions	12	**20,187**	80
Total term liabilities		**21,890**	4,552
Total liabilities		**87,129**	33,968
Total shareholders' equity	15	**381,997**	385,933
Total liabilities and shareholders' equity		**469,126**	419,901

The accompanying Accounting Policies and Notes form an integral part of the Financial Statements.

*Refer to explanatory note under "Basis of Preparation" on page 61.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

CONSOLIDATED STATEMENTS OF CASH FLOWS

FISHER & PAYKEL INDUSTRIES LIMITED excluding the appliances and finance businesses

For the year ended 31 March 2001

	Notes	**2001 $000**	2000 $000
Cash flows from operating activities			
Receipts from customers		**175,265**	140,143
Interest received		**105**	102
Payments to suppliers and employees		**(114,639)**	(82,599)
Taxation paid		**(12,534)**	(17,045)
Interest paid		**(2,195)**	(1,230)
Net cash flow from operations	16	**46,002**	39,371
Cash flows from (used in) investing activities			
Sale of fixed assets		**224**	568
Purchase of fixed assets		**(12,376)**	(30,724)
Capitalised interest costs		**(536)**	–
Net contribution (distribution)	7	**(19,356)**	42,206
Net cash flow from (used in) investing activities		**(32,044)**	12,050
Cash flows from (used in) financing activities			
Employee share purchase schemes		**2,108**	2,356
New term borrowings		**4,518**	3,549
Repayment of term borrowings		**(991)**	–
Dividends paid		**(14,176)**	(57,768)
Supplementary dividends paid		**(766)**	(3,789)
Net cash flows from (used in) financing activities		**(9,307)**	(55,652)
Net increase (decrease) in cash		**4,651**	(4,231)
Opening cash		**(789)**	3,263
Effect of foreign exchange rates		**(55)**	179
Closing cash		**3,807**	(789)
Reconciliation of closing cash			
Bank		**5,174**	510
Bank overdrafts	11	**(1,367)**	(1,299)
		3,807	(789)

The accompanying Accounting Policies and Notes form an integral part of the Financial Statements.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

BASIS OF PREPARATION

It is proposed that the Healthcare business will be the only business retained by Fisher & Paykel Industries Limited after the sale of the Appliances and Finance businesses to Fisher & Paykel Appliances Holdings Limited. Fisher & Paykel Industries Limited will change its name to Fisher & Paykel Healthcare Corporation Limited.

The Financial Statements include the assets, liabilities, income and expenses and cashflows of Fisher & Paykel Industries Limited Group after excluding the results, assets and liabilities and cashflows of the Appliances and Finance businesses and representing the Appliances and Finance businesses results direct to equity, the assets and liabilities as a "Net investment in Appliances and Finance businesses" and the cashflows as a net contribution or distribution. The financial position, results of operations and cash flows of Fisher & Paykel Industries Limited excluding the Appliances and Finance businesses may differ from the results that may have been achieved had the Fisher & Paykel Healthcare business operated as a separate legal entity.

Effect has been given in these Financial Statements to allow for $3.046 million under provision for unrealised foreign exchange loss at 31 March 2001, caused by an inadvertent error in the Mark to Market information supplied to the Company by one of its bankers. This error was identified post the publication of the Fisher & Paykel Industries Limited Audited Financial Statements for the year ended 31 March 2001.

The treasury function for the Appliances and Healthcare businesses has been largely managed by the Fisher & Paykel Industries Limited Group on a centralised basis. This includes the investment of surplus cash, the issuance, repayment and repurchase of short and long term debt, including derivative financial instruments. Accordingly debt managed in this manner, which is not specifically identifiable with the operations of a particular business, was allocated to the Fisher & Paykel Appliances business. Derivative financial instruments for the year ended 31 March 2000 have been allocated based on the future anticipated cash flows of the Appliances and Healthcare businesses for the related currencies. For the year ended 31 March 2001 all derivative instruments were specifically identified with individual businesses.

The financial statements presented here should not be taken to be indicative of the future financial performance, cash flows and financial position of the Healthcare business. This is because of the various risks to the business, including those outlined on pages 36 to 41 of this Information Memorandum, and a change in the capital structure.

STATEMENT OF ACCOUNTING POLICIES

These financial statements are presented in accordance with the generally accepted accounting practice in New Zealand, and are for the Group comprising Fisher & Paykel Industries Limited excluding the Appliances and Finance businesses that will be subject to the separation process as referred to in note 21 of the financial statements

NATURE OF OPERATIONS

The business of Fisher & Paykel Industries Limited excluding Appliances and Finance Businesses is the Healthcare operations which is a New Zealand based international business.

The Healthcare business believes it is the leading designer, manufacturer and marketer of heated humidifiers for use in respiratory care and the treatment of obstructive sleep apnea. These products are sold in over 90 countries worldwide with the major markets being the U.S. and Europe.

GENERAL ACCOUNTING POLICIES

The financial statements are based on the general principles of historical cost accounting, with the exception of properties which are included at the gross carrying value at 31 March 1992 (i.e. includes re-valuations to that date). Reliance is placed on the Group continuing as a going concern.

The following particular accounting policies which materially affect the measurement of profit and financial position, have been applied.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

SPECIFIC ACCOUNTING POLICIES

Consolidation

These financial statements have excluded the Appliances and Finance businesses from the consolidated financial statements of Fisher & Paykel Industries Limited on the basis of preparation described above.

Fisher & Paykel Industries Limited and subsidiary companies' accounts are consolidated using the principles of the purchase method. Subsidiaries are entities that are controlled either directly or indirectly. All material inter-Group transactions are eliminated. The results of businesses acquired or disposed of during the year are included in the consolidated statement of financial performance from the date of acquisition or up to the date of disposal.

Goodwill

The excess of cost over the fair value of net assets of subsidiaries acquired is capitalised as goodwill and is amortised to the Statement of Financial Performance on a straight line basis over the lower of the period of expected benefit or ten years from the date of investment.

Revenue Recognition

Goods and Services

Sales are recognised in accordance with the terms of sale when the benefits of ownership and risk of loss passes to the customer.

Investment income

Dividend income is recognised in the period the dividend is declared.

Interest is accounted for as earned.

Advertising and sales promotion costs

All advertising and sales promotion costs are expensed as incurred.

Employee share ownership plans

Fisher & Paykel Industries Limited operates two employee share ownership schemes. The initial purchase of shares by the schemes is funded by advances from the Group, the advances being recognised as assets in the statement of financial position. No compensatory expense is recognised in the statement of financial performance.

Employee entitlement

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees. The Group contributes to a defined benefit pension plan for employees. Contributions to the plan are expensed when made.

Inventories

Inventories are valued at the lower of cost, on a first-in, first-out basis, or net realisable value. Cost includes all costs except finance, administration, selling and distribution overheads.

Fixed assets

Effective 1 April 2000 interest costs incurred during the period required to complete and prepare the fixed asset for its intended use are capitalised as part of the total cost.

External software direct costs together with payroll and payroll related costs for employees directly associated with the development of software are capitalised. Costs associated with upgrades and enhancements are capitalised to the extent they result in additional functionality.

Impairment of long lived assets

Annually the directors assess the carrying value of each asset considering them on a grouped basis determined at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other group assets.

Where the estimated recoverable amount of the asset based upon the undiscounted future cash flows is less than its carrying amount, the asset is written down to assessed fair value.

Depreciation

Fixed assets, other than freehold land and capital work in progress, have been depreciated on a straight line basis writing off the original cost or valuations of the assets over their estimated useful lives as follows:

Buildings	50 years
Plant and equipment	3-15 years
Vehicles	5 years
Tooling	3 years
Software	3-10 years

Other assets

Other assets are valued at lower of cost or net realisable value.

Leases

Operating lease payments are expensed on a straight line basis over the period of the lease.

Research and development

Research and development expenditure is expensed as it is incurred. Development costs of Product Innovation as a process at Fisher & Paykel are, in the main, indistinguishable as to whether the benefits will be applied to current or future products.

Trade debtors

A specific provision is maintained to cover all identified doubtful debts. All known bad debts are written off against the specific provision in the period in which they become classified as irrecoverable.

Provision for warranty

Provision for warranty covers the obligations for the unexpired warranty periods for products, based on recent historical costs incurred on warranty exposure. Warranty terms vary as described below.

Internationally – 1 to 2 years parts and labour

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

Taxation

The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for permanent differences.

The liability method of accounting for the taxation effect of all timing differences is used. Deferred tax is accounted for using the comprehensive basis on all timing differences. Any future taxation benefit is recognised only to the extent that there is virtual certainty of recovery in subsequent periods.

Foreign currencies

Transactions in foreign currencies are converted at the rate of exchange prevailing at the date of the transaction.

At balance date, foreign monetary assets and liabilities are translated at the year end closing rates, and exchange variations arising from these transactions are included in the Statement of Financial Performance.

The financial statements of independent foreign subsidiaries are translated at the following exchange rates:

- The year end closing exchange rate for assets and liabilities
- The monthly weighted average exchange rate for revenue and expense transactions

The exchange rate difference from translating the opening net investment and revenue and expense transactions at rates different from that which was previously reported is reflected in the foreign currency translation reserve.

Statement of cash flows

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

a) Cash comprises cash on hand, bank balances and call borrowings.

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

c) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group.

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

Financial instruments

The Group has various financial instruments for the primary purpose of reducing its exposure to fluctuations in foreign currency exchange rates and interest rates. These financial instruments are subject to risk that market rates may change subsequent to acquisition. For interest rate instruments, the differential to be paid or received is accrued as interest rates change and is recognised as a component of interest expense over the life of the instrument. Exchange gains and losses arising on contracts which qualify as hedges for accounting purposes are deferred until the date the underlying transactions occur at which time they are included in the determination of Net Earnings.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications of prior years' data have been made to conform to current year's classifications.

CHANGES IN ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING STANDARDS

As at 1 April 2000 the Group changed its accounting policy with respect to capitalisation of financing costs. Under the new policy, financing costs that are directly attributable to the acquisition or construction of a fixed asset are capitalised. Formerly, all financing costs were expensed as incurred.

In addition, in order to comply with the requirements of Financial Reporting Standard No. 5, Events After Balance Date (FRS-5), the Group changed its accounting policy with respect to the date of recognition of the liability to pay dividends to shareholders. Under the new policy, dividends are recognised at the date they are declared by the Directors. Formerly, a liability was recognised at balance date even if the dividend for that financial year had been declared after that date. The Group has adopted the requirements of FRS-5 earlier than the standard requires. Under the Standard, the restatement of prior periods is not acceptable.

There have been no other changes in accounting policies.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS

	2001 $000	2000 $000
1. OPERATING REVENUE		
Continuing operations		
New Zealand sale of products	**10,430**	10,194
Overseas sale of products	**182,416**	133,628
	192,846	143,822
Dividend	**–**	101
Interest	**244**	264
Total continuing operations	**193,090**	144,187
Discontinued operations		
New Zealand sale of products	**73**	4,048
Overseas sale of products	**43**	3,290
Total discontinued operations	**116**	7,338
Total operating revenue	**193,206**	151,525

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000
2. NET OPERATING PROFIT		
Profit from continuing operations before taxation	**16,819**	50,189
After charging:		
Remuneration of auditors:		
Audit fees	**285**	230
Other services	**17**	93
Donations	**3**	–
Depreciation	**5,427**	4,151
Goodwill amortisation	**385**	385
Interest:		
Term borrowings	**533**	165
Other	**1,629**	1,065
Foreign currency exchange loss (gain)	**13,445**	(1,339)
Unrealised loss on foreign currency instruments	**47,397**	–
Research and development	**8,661**	6,680
Rental and operating leases	**1,780**	1,479
Bad debts written off	**42**	7
Movement in provision for doubtful debts	**(159)**	54
Directors' fees	**227**	163
Profit (loss) from discontinued operations before taxation	**(291)**	(1,062)
After charging:		
Depreciation	**30**	212
Rental and operating leases	**–**	40

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000
3. TAXATION		
Profit from continuing operations before taxation	**16,819**	50,189
Taxation at current rate of 33%	**5,550**	16,562
Adjustments to taxation for:		
Non-assessable income	**–**	(27)
Non-deductible items	**315**	110
Foreign rates other than 33%	**1,171**	1,042
This year's taxation	**7,036**	17,687
Other	**76**	90
Income tax expense from continuing operations	**7,112**	17,777
Profit (loss) from discontinued operations before taxation	**(291)**	(1,062)
Taxation at current rate of 33%	**(96)**	(351)
Income tax from discontinued operations	**(96)**	(351)
Total income tax expense	**7,016**	17,426
This is represented by:		
Current taxation	**8,561**	18,551
Deferred taxation	**(1,545)**	(1,125)
	7,016	17,426
4. DEBTORS AND PREPAYMENTS		
Trade receivables	**32,934**	21,601
Less allowance for doubtful accounts	**(65)**	(403)
	32,869	21,198
Other debtors and prepayments	**1,085**	920
Separation costs (note 21)	**2,683**	–
	36,637	22,118

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000
5. INVENTORIES		
Materials	**5,569**	4,642
Finished products	**13,097**	12,258
Provision for obsolescence	**(396)**	(424)
	18,270	16,476
6. TAXATION		
Balance at beginning of year:		
Taxation payable	**(14,033)**	(7,255)
Taxation recoverable	**5,149**	6
Total taxation expense in current year	**(8,561)**	(18,551)
Taxation paid	**12,534**	17,045
Other movements	**449**	(129)
Balance at end of year:		
Taxation payable	**(13,055)**	(14,033)
Taxation recoverable	**8,593**	5,149
7. NET INVESTMENT IN APPLIANCES AND FINANCE BUSINESSES*		
Net investment brought forward	**308,035**	325,887
Revaluation of net investments	**(488)**	24,354
Net contribution (distribution)	**19,356**	(42,206)
Net investment carried forward	**326,903**	308,035

*Refer to explanatory note on page 61 under "Basis of Preparation".

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000
8. FIXED ASSETS		
Buildings (at cost)	**36,677**	–
Less depreciation	**1,093**	–
	35,584	–
Land (at cost)	**6,486**	6,486
	6,486	6,486
Leasehold improvements (at cost)	**577**	485
Less depreciation	**364**	260
	213	225
Plant and equipment (at cost)	**27,842**	24,077
Less depreciation	**14,136**	11,945
	13,706	12,132
Computer software (at cost)	**1,391**	1,176
Less depreciation	**947**	545
	444	631
Capital projects (at cost):		
Buildings	**–**	30,384
Other	**2,481**	948
	2,481	31,332
	58,914	50,806

The independent valuation of land and buildings as at 31 March 2001 was $44.9 million (2000 $13.6 million excluding capital projects).

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000
9. EMPLOYEE SHARE OWNERSHIP PLANS		
Share purchase loans	**11,301**	13,166

Share purchase loans are made by the group under the Share Purchase Schemes to assist with the purchase of fully paid ordinary shares in Fisher & Paykel Industries Limited.

Shares are normally issued at a discount ranging from 20% to 33% of market price, on terms permitted by the Schemes in accordance with sections CH2 or DF7 of the New Zealand Income Tax Act 1974, with no interest or a nominal interest rate being charged on the loans. The qualifying periods between grant and vesting date are 3 or 8 years. Dividends paid during the qualifying period on shares allocated to employees and executives under the Schemes are paid to the employees and are credited to the executives loan. Voting rights on the shares are exercisable by the employees under their Schemes, but by the Trustees under the executives' Schemes.

4,667,000 shares (2000 4,814,700) are held by the Schemes, being 3.9% (2000 4.1%) of Fisher & Paykel Industries Limited issued and paid up capital. As at 31 March 2001, all shares were allocated to employees or executives, except for 244,900 (2000 141,200). Once vested an employee participant may elect to transfer the shares into his or her own name, after which the shares are freely transferable.

All shares are allocated to employees at the time of issue, on the condition that should they leave Fisher & Paykel Industries Limited before the qualifying period ends, their shares will be repurchased by the Trustees at the lesser of market price and the price at which the shares were originally allocated to the employee, subject to repayment of the original loan.

Any such shares are re-allocated to other employees by the Trustees. Trustees of the Employee Share purchase Schemes are appointed by Fisher & Paykel Industries Limited.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000

9. EMPLOYEE SHARE OWNERSHIP PLANS *continued*

Information relating to shares issued under the Schemes is as follows:

	2001		2000		1999	
	Price* $	**Number of shares**	Price* $	Number of shares	Price* $	Number of shares
As at beginning of the year	**3.47**	**4,793,500**	3.23	4,531,300	3.24	4,828,800
Granted during the year	**–**	**–**	5.12	737,400	–	–
Vested during the year	**2.95**	**(274,050)**	3.78	(373,150)	3.40	(149,100)
Lapsed due to resignation	**4.40**	**(97,350)**	3.61	(102,050)	3.40	(148,400)
As at end of year	**3.48**	**4,422,100**	3.47	4,793,500	3.23	4,531,300

Period granted	Non-vested shares outstanding	Price range $	Price* $	Remaining period to vesting
Pre 31 March 1998	3,755,000	2.88 – 3.78	3.19	3 to 5 years
1 April 1998 – 31 March 1999				
1 April 1999 – 31 March 2000	667,100	5.12	5.12	1 to 2 years
1 April 2000 – 31 March 2001				
	4,422,100			

*Weighted average.

	2001 $000	2000 $000
10. DEFERRED TAXATION/FUTURE TAXATION BENEFIT		
Balance at beginning of year:		
Deferred taxation	**301**	345
Current year timing differences	**1,545**	1,125
Other movements	**(1,467)**	(1,169)
Balance at end of year:		
Deferred taxation	**379**	301
11. BANK OVERDRAFTS		
Bank overdrafts	**1,367**	1,299

Bank overdrafts in foreign currencies total:

USD 0.151 million (2000 USD0.082 million)
GBP 0.023 million (2000 GBP0.239 million)
EUR 0.592 million (2000 EUR0.270 million)

Bank overdrafts are repayable on demand and come under the Negative Pledge Agreement as set out in note 13.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000
12. PROVISIONS		
Current:		
Warranty and service contracts	**541**	366
Unrealised loss on foreign currency instruments	**27,210**	–
	27,751	366
Term:		
Warranty and service contracts	**–**	80
Unrealised loss on foreign currency instruments	**20,187**	–
	20,187	80
13. TERM BORROWINGS		
Borrowing facilities due for repayment:		
Current	**7,219**	6
One to two years	**594**	4,324
Two to three years	**1,109**	148
Term	**1,703**	4,472

These borrowings have been aged in accordance with the facilities' terms. All borrowings are drawn down by way of short term bills at interest rates current at draw down date (weighted average 6.4%, 2000 6.2%).

Borrowings in foreign currencies total Euro 2.3 million (2000 Euro 0 million) and US$2.7 million (2000 US$1.7 million). A Negative Pledge Agreement has been executed with certain bankers. Major trading companies operating under a Negative Pledge Agreement are listed in note 24 (Fisher & Paykel Appliances and Finance companies also form part of this agreement). The negative pledge includes the covenant that security can be given only in limited circumstances. The principal covenants of the negative pledge are that:

(a) total liabilities of the Fisher & Paykel Group (excluding the Finance Group) shall not exceed 70% of the Fisher & Paykel Group tangible assets (excluding the Finance Group);

(b) the tangible net worth of the Fisher & Paykel Group shall be in excess of $200 million: and

(c) the total of net operating profit before taxation for the Fisher & Paykel Group and interest paid by the Fisher & Paykel Group (other than interest paid by the Finance Group) shall exceed 250% of the interest paid by the Fisher & Paykel Group (other than interest paid by the Finance Group).

	2001 $000	2000 $000
14. OTHER CURRENT LIABILITIES		
Employees' entitlements	**2,748**	2,821
Other creditors and accruals	**4,603**	3,512
	7,351	6,333

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000
15. SHAREHOLDERS' EQUITY		
118,111,137 (2000 118,111,137) ordinary shares issued and paid up.		
All ordinary shares rank equally with one vote attaching to each fully paid ordinary share.		
Shareholders' equity before reserves brought forward	**384,797**	372,517
Staff Share Scheme shares issued (2000 issued 561,900 ordinary shares)	**–**	3,414
Profit for the year	**9,512**	31,701
Revaluation of net investment in Appliances and Finance businesses	**(488)**	24,354
Dividends	**(14,176)**	(47,189)
Shareholders' equity before reserves carried forward	**379,645**	384,797
Currency translation reserve brought forward	**1,136**	212
Movement for the year	**1,216**	924
Currency translation reserve carried forward	**2,352**	1,136
Total shareholders' equity	**381,997**	385,933

The final dividend for 2001 has not been accrued, refer accounting policies.

	2001 $000	2000 $000
16. CASH FLOW		
Reconciliation of profit to cash flows from operating activities		
Profit after taxation	**9,512**	31,701
Add/(deduct) non-cash items		
Depreciation	**5,457**	4,363
Amortisation of goodwill	**385**	385
Movement in provisions	**95**	197
Movement in deferred tax/future tax benefit	**(78)**	2,388
Movement in working capital:		
Payables and accruals	**(1,768)**	(8,211)
Debtors	**(11,836)**	(1,935)
Inventory	**(1,794)**	2,320
Provision for taxation net of supplementary dividend paid	**(3,656)**	7,295
Provision for foreign exchange loss (unrealised)	**47,397**	–
Foreign currency exchange translation	**2,288**	868
Net cash flow from operations	**46,002**	39,371

	2001 $000	2000 $000
17. CONTINGENT LIABILITIES		
Contingent liabilities	**–**	–

Periodically the group is a party to litigation including product liability claims. To date such claims have been settled for relatively small monetary amounts which have been expensed or covered by insurance. The group is unaware of the existence of any claim that would have a material impact on the operations of the company.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS *continued*

	2001 $000	2000 $000
18. COMMITMENTS		
Capital expenditure commitments at 31 March 2001:		
Within one year	**1,259**	5,748
Total	**1,259**	5,748
Lease commitments under non-cancellable operating leases:		
Within one year	**1,825**	1,156
Between one and two years	**1,090**	1,075
Between two and three years	**200**	869
Between three and four years	**192**	610
Between four and five years	**175**	523

Operating lease commitments relate mainly to occupancy lease of buildings.

19. CURRENCY

The following currency conversion rates have been applied at 31 March 2001:

		2001	2000
NZ$1.00 =	USD	**0.403**	0.496
	AUD	**0.828**	0.819
	GBP	**0.285**	0.311
	EUR	**0.461**	0.517

Significant foreign currency monetary assets and liabilities included in the Statement of Financial Position at the above conversion rates as at 31 March 2001 are as follows:

	US$000	
	2001	2000
Current assets:		
Cash and bank balances	**1,876**	78
Debtors and prepayments	**9,407**	6,944
Current liabilities:		
Trade creditors	**181**	179
Term borrowings	**2,670**	–
Other liabilities	**697**	585
Term liabilities:		
Term borrowings	**–**	1,699

20. RELATED PARTY TRANSACTIONS

Certain general and administrative costs are allocated to the Healthcare businesses on bases which the Directors believe to be reasonable. These costs include management, audit, tax and accounting services, insurance, legal services and other general corporate costs. Such allocations are not necessarily indicative of what would have been incurred if Healthcare had been operating as a separate legal entity.

Annexure A: Audited consolidated financial statements of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the financial year ended 31 March 2001

continued

NOTES TO THE FINANCIAL STATEMENTS *continued*

21. PROPOSED SEPARATION

In December 2000 the Group announced that subject to Court and Shareholder approval, Fisher & Paykel Industries Limited will be separated into two listed public companies – Fisher & Paykel Healthcare Corporation Limited (being the current Fisher & Paykel Industries Limited) and a new holding company (Fisher & Paykel Appliances Holdings Limited) incorporating the Appliances and Finance businesses, together with slightly less than 20 percent ownership of Fisher & Paykel Healthcare Corporation Limited.

No financial impact of the financial separation has been recognised in the financial statements at 31 March 2001 apart from capitalised separation costs incurred to date (refer note 4). Financial impacts which may include restructuring costs, direct costs associated with the transactions and the carrying values of assets and liabilities will be recognised at the time of separation.

22. FINANCIAL INSTRUMENTS

Management policies

Through its importing and exporting activities, Healthcare generates a number of internal foreign currency hedges. General policy is to monitor current and anticipated future foreign currency trading cash flows and advice is taken on likely foreign currency rate trends. When considered appropriate, Healthcare will enter into options and forward exchange contracts to hedge current and anticipated future currency trade cash flows.

Interest rate risks are regularly monitored and advice taken on likely trends. When considered appropriate, Healthcare will swap its floating interest rate borrowings into fixed interest rate borrowings.

Management of foreign currency and interest rate risk is regularly reported to the Board of Directors. The large depreciation in the New Zealand dollar exchange rate during the year ended 31 March 2001 resulted in a change in the correlation between the cash flows from transactions and the cash flows from the foreign currency instruments. The directors therefore decided it was appropriate to revalue foreign hedge instruments to mark to market at 31 March 2001 as these instruments no longer met hedge accounting rules.

Fair value

Estimated fair values of Healthcare's financial assets and liabilities at 31 March 2001 are as follows:

	2001		2000	
	Carrying Amount $000	**Fair Value $000**	Carrying Amount $000	Fair Value $000
Cash at bank	**5,174**	**5,174**	510	510
Debtors and prepayments	**36,637**	**36,637**	22,118	22,118
Advances under Employee Share Ownership Plans	**11,301**	**9,716**	13,166	10,706
Bank overdrafts	**(1,367)**	**(1,367)**	(1,299)	(1,299)
Term borrowings	**(8,922)**	**(8,922)**	(4,478)	(4,478)
Creditors	**(15,847)**	**(15,847)**	(13,712)	(13,712)
Foreign currency forward exchange contracts	**(1,978)**	**(1,978)**	–	(1,032)
Foreign currency option agreements	**(45,419)**	**(45,419)**	–	(4,586)

22. FINANCIAL INSTRUMENTS *continued*

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash at bank, debtors and prepayments, creditors, and bank overdrafts

Carrying amounts of these items are equivalent to their fair values.

Advances under Employee Share Ownership Plans

Fair values are estimated based on current market interest and period to maturity

Term borrowings

Fair value of Healthcare's term borrowings is estimated based on current market interest rates available to Healthcare for debt of similar maturities.

Foreign currency forward exchange contracts and option agreements

Fair values are estimated based on the quoted market prices of these instruments at balance date.

Off balance sheet risk

Healthcare has entered into foreign currency forward exchange contracts and foreign currency option agreements to manage its exposure to fluctuations in foreign currency exchange rates. These financial instruments are subject to the risk that exchange rates may change subsequent to acquisition.

Notional principal of foreign exchange and option agreements amounts outstanding were as follows:

	2001 $000	2000 $000
Foreign currency instruments		
Purchase commitments forward exchange contracts	**–**	19,679
Sale commitments forward exchange contracts	**22,015**	33,604
Put option agreements purchased	**44,728**	60,047
Call option agreements sold	**142,579**	249,340

Credit risk

Foreign currency forward exchange contracts and foreign currency option agreements have been entered into with trading banks. Healthcare's exposure to credit risk from these financial instruments is limited because it does not expect non-performance of the obligations contained therein due to the credit rating of the financial institutions concerned. Healthcare does not require collateral or other security to support financial instruments.

In the normal course of business, Healthcare incurs credit risk with trade receivables. Healthcare has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposure are monitored on a regular basis. There are no significant concentrations of credit risk.

Customer concentration

The five largest customers have been the following proportion of Healthcare's revenue, 2001 30.5% (2000 31.0%).

Receivable concentration

The five largest customers have been the following proportion of Healthcare's debtors, 2001 35.1% (2000 34.2%).

NOTES TO THE FINANCIAL STATEMENTS *continued*

23. SEGMENTS

Healthcare's principal activity is the manufacture and sale of respiratory humidification based products, which are exported from New Zealand to over 90 countries.

Total geographical revenues are: New Zealand $10.7 million (2000 $14.5 million), Australia $14.3 million (2000 $21.1 million), United States $85.9 million (2000 $56.7 million) and other countries $82.3 million (2000 $59.2 million).

New Zealand based assets, excluding the net investment in the Appliances and Finance businesses, amount to $88.8 million (2000 $71.5 million), Australian based assets amount to $5.2 million (2000 $5.2 million) United States based assets amount to $26.9 million (2000 $16.4 million) and total assets amount to $142.2 million (2000 $111.9 million).

24. PRINCIPAL COMPANIES

The assets and liabilities attributed to Fisher & Paykel Healthcare businesses are largely owned by the following companies:

Principal Healthcare companies	Country of Domicile	Principal activities
*Fisher & Paykel Healthcare Limited	NZ	Manufacture & Distribution of Healthcare Products
Fisher & Paykel Healthcare Limited	UK	Distribution of Healthcare Products
Fisher & Paykel Healthcare Pty Limited	Australia	Distribution of Healthcare Products
Fisher & Paykel Healthcare Inc	USA	Distribution of Healthcare Products
Fisher & Paykel Healthcare SAS	France	Distribution of Healthcare Products
Fisher & Paykel Healthcare GmbH & Co KG	Germany	Distribution of Healthcare Products

All companies have a balance date of 31 March.

*Together with Fisher & Paykel Industries Limited and certain Fisher & Paykel Appliances companies, those companies marked with an asterisk are the major trading companies in the Negative Pledge Agreement.

Annexure B: Audited summary of consolidated financial information of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the five financial years ending 31 March 2001

BASIS OF PREPARATION

It is proposed that the Healthcare business will be the only business retained by Fisher & Paykel Industries Limited after the sale of the Appliances and Finance businesses to Fisher & Paykel Appliances Holdings Limited. Fisher & Paykel Industries Limited will change its name to Fisher & Paykel Healthcare Corporation Limited.

The Financial Statements include the assets, liabilities, income and expenses and cashflows of Fisher & Paykel Industries Limited Group after excluding the results, assets and liabilities and cashflows of the Appliances and Finance businesses and representing the Appliances and Finance businesses results direct to equity, the assets and liabilities as a "Net investment in Appliances and Finance businesses" and the cashflows as a net contribution or distribution. The financial position, results of operations and cashflows of Fisher & Paykel Industries Limited excluding the Appliances and Finance businesses may differ from the results that may have been achieved had the Fisher & Paykel Healthcare business operated as a separate legal entity.

The treasury function for the Appliances and Healthcare businesses has been largely managed by the Fisher & Paykel Industries Limited Group on a centralised basis. This includes the investment of surplus cash, the issuance, repayment and repurchase of short and long term debt, including derivative financial instruments. Accordingly debt managed in this manner, which is not specifically identifiable with the operations of a particular business, was allocated to the Fisher & Paykel Appliances business. Derivative financial instruments for the year ended 31 March 2000 and preceding years have been allocated based on the future anticipated cashflows of the Appliances and Healthcare businesses for the related currencies. For the year ended 31 March 2001 and preceding years all derivative instruments were specifically identified with individual businesses.

Effect has been given in these Financial Statements to allow for $3.046 million under provision for unrealised foreign exchange loss at 31 March 2001, caused by an inadvertent error in the Mark to Market information supplied to the Company by one of its bankers. This error was identified post the publication of the Fisher & Paykel Industries Limited Audited Financial Statements for the year ended 31 March 2001.

The financial statements presented here should not be taken to be indicative of the future financial performance, cashflows and financial position of the Healthcare business. This is because of the various risks to the business, including those outlined on pages 36 to 41 of this Information Memorandum, and a change in the capital structure.

Annexure B: Audited summary of consolidated financial information of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the five financial years ending 31 March 2001 *continued*

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL PERFORMANCE

FISHER & PAYKEL INDUSTRIES LIMITED excluding the appliances and finance businesses

Year ended 31 March

	1997 $000	1998 $000	1999 $000	2000 $000	2001 $000
Operating revenues from continuing operations	73,812	102,002	119,128	144,187	193,090
Operating revenues from discontinued operations	179,955	193,917	69,862	7,338	116
Operating revenue	253,767	295,919	188,990	151,525	193,206
Operating profit from continuing operations before abnormal items	16,206	29,137	40,433	50,080	79,823
Profit (loss) from discontinued operations before abnormal items	7,614	4,680	(1,560)	(1,062)	(291)
Operating profit from operations before abnormal items	23,820	33,817	38,873	49,018	79,532
Abnormal items[3]	–	–	(875)	–	–
Interest expense	(2,473)	(3,430)	(2,023)	(1,230)	(2,162)
Foreign currency exchange profit (loss)	(538)	(531)	1,059	1,339	(60,842)
Surplus before income tax from continuing operations	15,868	25,987	36,906	50,189	16,819
Surplus (deficit) before income tax from discontinued operations	4,941	3,869	128	(1,062)	(291)
Surplus before income tax	20,809	29,856	37,034	49,127	16,528
Income tax	(6,918)	(10,057)	(9,541)	(17,426)	(7,016)
Net surplus after income tax	13,891	19,799	27,493	31,701	9,512
Dividends[4]	20,367	20,919	38,772	47,189	14,176
Surplus (deficit) retained by the Group	(6,476)	(1,120)	(11,279)	(15,488)	(4,664)

Annexure B: Audited summary of consolidated financial information of Fisher & Paykel Industries Limited excluding the appliances and finance businesses for the five financial years ending 31 March 2001 *continued*

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

FISHER & PAYKEL INDUSTRIES LIMITED excluding the appliances and finance businesses

Year ended 31 March

	1997 $000	1998 $000	1999 $000	2000 $000	2001 $000
Tangible assets continuing operations	40,557	43,405	76,405	108,362	139,268
Intangible assets continuing operations	–	–	3,725	3,340	2,955
Tangible assets discontinued operations	67,933	84,122	7,813	164	–
Net investment in appliances and finance businesses	287,829	310,367	325,887	308,035	326,903
Total assets	396,319	437,894	413,830	419,901	469,126
Liabilities continuing operations	(16,052)	(27,096)	(32,348)	(33,745)	(87,129)
Liabilities discontinued operations	(16,447)	(16,735)	(8,753)	(223)	–
Total liabilities	(32,499)	(43,831)	(41,101)	(33,968)	(87,129)
Total equity	363,820	394,063	372,729	385,933	381,997
Net tangible asset backing per share	$3.20	$3.35	$3.17	$3.27	$3.23

Notes:

1. This information is extracted from the audited consolidated financial statements of Fisher & Paykel Industries Limited.
2. Effect has been given to allow for $3.046 million under provision for unrealised foreign exchange loss at 31 March 2001, caused by an inadvertent error in the Mark to Market information supplied to the Company by one of its bankers. This error was identified post the publication of the Fisher & Paykel Industries Limited Audited Financial Statements for the year ended 31 March 2001.
3. The abnormal item of $(0.9) million is comprised of the following:

	$000
Continuing operations:	
Loss on sale of land and buildings	(4,201)
Provision for restructuring	(547)
	(4,748)
Discontinuing operations:	
Cellnet divestment	12,893
Panasonic divestment	(156)
Writedown of fixed assets to recoverable values	(5,435)
Provision for closure costs	(3,429)
	3,873
	(875)

4. The final dividend for the 2001 financial year was not accrued and will be recognised when paid.

ADJUSTED NET TANGIBLE ASSET BACKING PER SHARE

The unaudited adjusted Net Tangible Asset backing per share for Fisher & Paykel Healthcare Corporation Limited is $1.53 based on approximately 99.7 million shares which represents the number of shares outstanding after the buy back of 18.2 million shares from Fisher & Paykel Appliances Holdings Limited and the sale of the appliances and finance businesses. This adjusted asset backing calculation has been calculated as if the buy back occured on 31 March 2001.

Annexure C: Audit report

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The Directors
Fisher & Paykel Industries Limited
Private Bag 14917
Panmure
AUCKLAND

7 September 2001

Subject: Historical financial information for Fisher & Paykel Healthcare Corporation Limited

Dear Directors

We have prepared this report for inclusion in the Information Memorandum to be dated 7 September 2001.

We have audited the special purpose financial statements of Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses on pages 57 to 78. These financial statements provide information about the past financial performance and cash flows for the year ended 31 March 2001 and financial position as at that date, for the operations of Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses. This information is stated in accordance with the Basis of Preparation and Statement of Accounting Policies set out on pages 61 to 65.

As described in the Basis of Preparation on page 61, these financial statements reflect the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses, together with certain corporate allocations and are prepared solely for the purpose of the separation of the Healthcare, and the Appliances and Finance Operations.

The summary financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses for the years ended 31 March 2001, 2000, 1999, 1998 and 1997 have been derived from the audited financial statements of Fisher & Paykel Industries Limited Group.

Directors' responsibilities

The Directors of Fisher & Paykel Industries Limited are responsible for:

(a) the financial statements which give a true and fair view of the financial position of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses as at 31 March 2001 and of the results of its operations and cash flows for the year ended on that date;

(b) the derivation, preparation and presentation of the summary of financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses for the years ended 31 March 2001, 2000, 1999, 1998 and 1997.

PRICEWATERHOUSECOOPERS

Auditors' responsibilities

We are responsible for:

(a) expressing an independent opinion on the, special purpose financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses for the year ended 31 March 2001, presented by the Directors;

(b) reporting on the amounts included in the summary of financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses for the years ended 31 March 2001, 2000, 1999, 1998 and 1997.

Other than in our capacities as auditors and providers of taxation and consulting services, we have no relationship with or interests in Fisher & Paykel Industries Limited or any of its subsidiaries.

Basis of opinions on the financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses

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, for the financial statements of Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses, the accounting policies are appropriate to their circumstances, consistently applied and adequately disclosed having regard to the Basis of Preparation on page 61.

We have conducted our audits in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audits so as to obtain all the information and explanations which we considered necessary in order 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 opinions we also evaluated the overall adequacy of the presentation of the information in the financial statements.

Basis of opinion on the summary of financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses

We have undertaken procedures to provide reasonable assurance that the amounts set out in the summary of financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses on pages 79 to 81 has been correctly taken from the audited financial statements of Fisher & Paykel Industries Limited Group for the years ended 31 March 2001, 2000, 1999, 1998 and 1997, from which they were derived.

Annexure C: **Audit report** *continued*

PricewaterhouseCoopers

Unqualified opinions

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

In our opinion:

(a) the financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses, on pages 57 to 78 of this Information Memorandum:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) give a true and fair view of the financial position of Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses as at 31 March 2001 and their financial performance and cash flows for the year ended on that date.

(b) the amounts set out in the summary of financial statements of the Fisher & Paykel Industries Limited Group excluding the Appliances and Finance Businesses, on pages 79 to 81 of this Information Memorandum, have been correctly taken from the audited financial statements of Fisher & Paykel Industries Limited Group for the years ended 31 March 2001, 2000, 1999, 1998 and 1997, from which they were derived.

PricewaterhouseCoopers takes no responsibility for, nor do we report on, any part of the Information Memorandum not mentioned in this report.

Yours faithfully

Chartered Accountants
Auckland
New Zealand

Directory

Current Directors of Fisher & Paykel Industries Limited
N. M. T. Geary
J. W. Gilks
W. L. Gillanders
D. B. Henry
Sir C. J. Maiden
G. A. Paykel
M. Paykel
D. D. Rowlands
J. J. A. Williams

Directors of Fisher & Paykel Healthcare Corporation Limited from completion of the Separation Arrangement
G. A. Paykel
P. M. Smith
M. G. Daniell
A. E. Clarke
N. T. Evans
W. L. Gillanders
Sir C. J. Maiden

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