Fisher & Paykel HEALTHCARE

# Annual Report 2004

# Contents



# Vision to Value

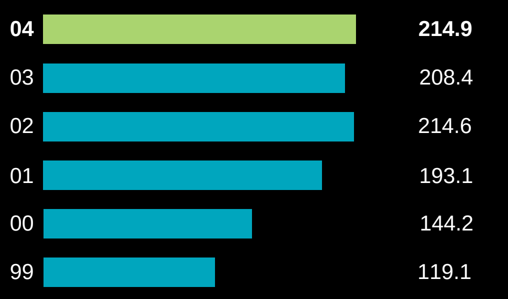
**Fisher & Paykel Healthcare Corporation Limited increases value for our shareholders by profitably designing, developing, manufacturing, marketing and selling healthcare devices worldwide which improve patient care and outcomes.**

**In our 2004 annual report we discuss how growth from new products contributed to record revenue across our core product groups. We also describe our growing investment in research and development which is intended to ensure that we continue to profitably bring new products to market.**

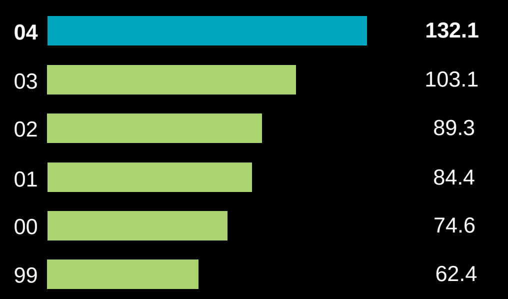
# 2004 Financial Highlights

## OPERATING REVENUE FROM CONTINUING OPERATIONS

NZ $ MILLIONS

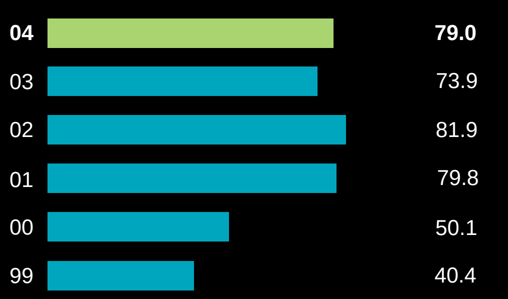



US $ MILLIONS

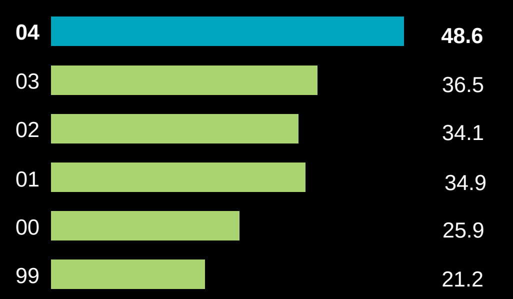



## OPERATING PROFIT FROM CONTINUING OPERATIONS BEFORE ABNORMAL ITEMS

NZ $ MILLIONS

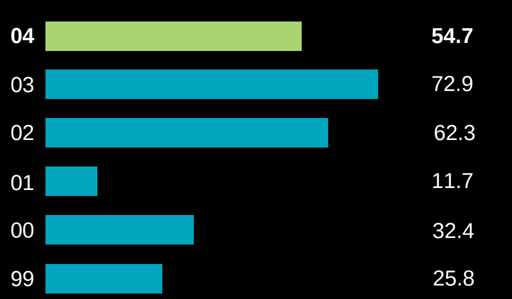



US $ MILLIONS

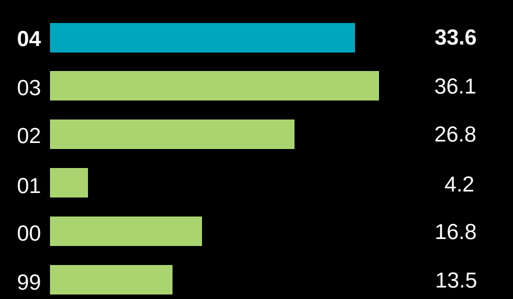



## PROFIT FROM CONTINUING OPERATIONS AFTER TAXATION

NZ $ MILLIONS




US $ MILLIONS



# 2004 Financial Highlights

- Record operating revenue of NZ$214.9 million
- Operating revenue up 28% to US$132.1 million
- Increased operating profit of NZ$79.0 million, up 7% over the prior year
- Profit after tax of NZ$54.7 million
- Operating margin of 36.8% for the year
- Respiratory humidification product group revenue up 34% to US$68.1 million
- OSA product group revenue up 17% to US$49.1 million
- Neonatal and patient warming product group revenue up 63% to US$9.8 million
- Pre-tax return on average shareholders' equity of 42%
- Research & development investment increased to 6.6% of revenue
- Total dividends of NZ 52 cents per share for the year

# VISION

Our purpose is to increase shareholder value by profitably designing, developing, manufacturing, marketing and selling healthcare devices worldwide which improve patient care and outcomes.

# VALUES

Fundamental to our success are these basic values:

### PATIENTS:

We will employ our research capabilities, technical skills and clinical partnerships to design and develop innovative products and therapies which assist healthcare professionals to deliver the best possible patient care and outcomes.

### CUSTOMERS:

Our goal is to be recognised by our customers as a high quality, innovative and cost efficient supplier. We intend to earn their respect as the best to do business with through our understanding of their current and future needs.

### OUR PEOPLE:

We value our family of employees as essential to the success of our company. We aim to develop a long-term relationship of trust with each employee, providing for their welfare, well-being and safety, encouraging their contributions and assisting in their personal development and education. In all dealings we will be fair and consistent.

### QUALITY IMPROVEMENT:

We believe in continuous improvement in everything we do, including our administration, marketing, sales, design, service, distribution and manufacturing. Continued innovation and improvement are critical to our ongoing growth.

### SUPPLIERS:

We view suppliers of goods and services, with whom we wish to develop long-term relationships of trust, as an extension of our company. We expect our suppliers to embrace our quality improvement philosophy in their dealings with us.

### SHAREHOLDERS:

We aim to be a company in whom our shareholders have trust and pride. We will keep our shareholders properly informed of our company's performance and prospects. We recognise the need to provide our shareholders with an excellent return on investment, consistent with long-term growth.

### PLANNING:

All short-term decisions will be consistent with long-term objectives that balance the needs of our people, customers, suppliers and shareholders. Each year these objectives will be widely communicated within our company.

### ENVIRONMENT:

Reflecting our commitment to minimise the impact of our operations on the environment, we aim to develop products and manufacturing processes which are as friendly to the environment as practicable.

### SOCIETY:

We will conduct our business at all times in a fair, ethical, consistent and professional manner. We accept our responsibility to be a trustworthy community neighbour and will continue to support community affairs.

Chairman's Report

# Increasing value for shareholders

Gary Paykel - Chairman

Another year of positive operating earnings growth confirms our consistent ability to develop, manufacture and sell innovative healthcare devices which increase shareholder value.

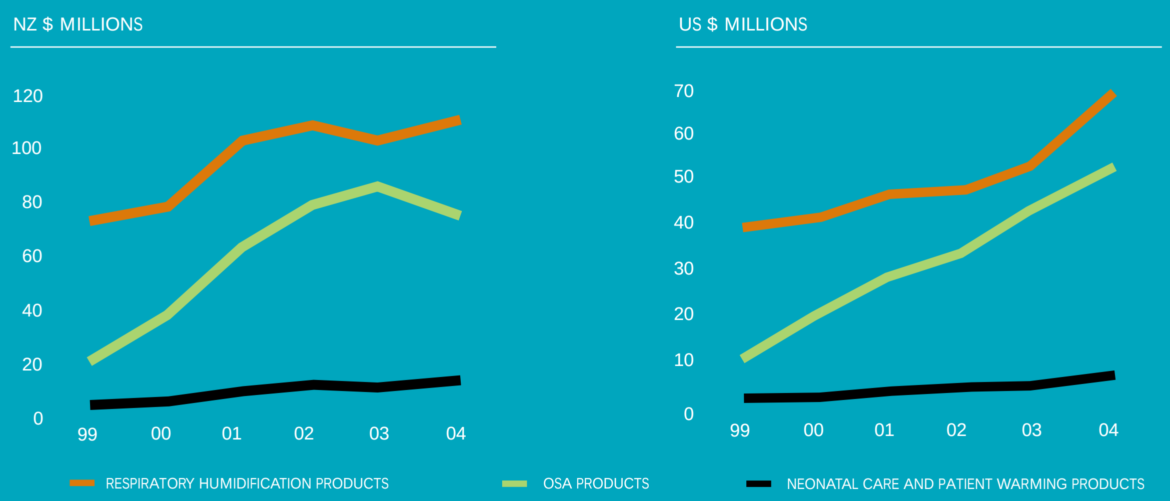
Across our core product groups a number of major new products made important contributions to revenue growth, with the end result being record revenue of NZ$214.9 million. New products also contributed to our increased operating profit of NZ$79.0 million for the year ended 31 March 2004.

This positive performance enabled us to deliver to our shareholders increased total dividends for the financial year of NZ 52 cents, carrying full imputation credit. Non New Zealand resident shareholders also received supplementary dividends of NZ 9.18 cents per share.

Our results this year confirm the underlying strength of our business, which operates in the worldwide market for healthcare products. As an exporter, we faced a 24% appreciation in the average value of the New Zealand dollar against the US dollar, the currency in which approximately two thirds of our revenue is denominated. In US dollar terms our revenue increased by 28% and our operating profit by 33% compared with the prior year.

Each of our core product groups achieved excellent growth, with respiratory humidification product group revenue up 34% to US$68 million, obstructive sleep apnea (OSA)

## REVENUE BY PRODUCT GROUP




product group revenue up 17% to US$49 million and neonatal care and patient warming product group revenue up 63% to US$9.8 million.

Underlying growth in the respiratory humidification product group was a very healthy 14% over the prior year. This growth was driven by ongoing market share gains by our MR850 respiratory humidifier system, which also contributed to strong demand for both our adult and neonatal breathing circuits.

In our OSA product group, revenue from flow generators and masks grew 35% in US dollars and generated almost two thirds of our total OSA revenue in the second half of the year. We believe that the worldwide OSA treatment market continues to grow at a rate of 15-20% a year and we are steadily growing our market share in this rapidly growing market.

We anticipate that this growth will be assisted by the shared primary purchasing agreement we signed in January 2004 with Apria Healthcare Group, the United States' largest provider of home healthcare services. This new relationship gives us the opportunity to promote the benefits of our products to Apria's 425 stores. Our sales to Apria have already begun to increase and we expect that our volume of business with Apria will grow steadily this year.

The spectacular 63% gain, in US dollar terms, in our neonatal and patient warming revenue was driven by the excellent performance of our neonatal warmers, and by our neonatal breathing systems, which include our infant continuous positive airway pressure (CPAP) system and infant resuscitator.

We made positive gains in our margins, another indicator of the business' underlying strength. This year our operating margin rose to 36.8%, compared with 35.5% for the prior year. Our gross margin increased to 70.9%, compared with 67.6% in 2003, a gain we attribute to a combination of favourable foreign exchange hedging, product cost reductions and product mix. These healthy margins, coupled with effective management of working capital, including inventory and debtors, resulted in a pre-tax return on average shareholders' equity of 42% for the year.

As revenue grew from new products, we increased our investment in research and development to ensure a continued flow of innovative products to our customers. This year's investment of NZ$14.1 million in R&D represents 6.6% of revenue, compared with 5.5% in the prior year. We consider this money well spent. It not only contributed to several important new product launches this year, but has also furthered the development of products to be launched in the 2005 financial year and beyond.

During the year the decision was made to begin planning for the expansion of our manufacturing capacity. We expect we will need to construct a second building on our Auckland site to accommodate our growth beyond 2006. As with our earlier NZ$12.4 million expansion of the existing facility, we expect the project to be largely funded from operating cash flows.

We have also expanded our international sales force, with direct sales operations now operating in Italy and Spain, extending our direct European coverage which also includes the United Kingdom, Ireland, France, the Netherlands,

**Performance driven…** The spectacular 63% gain, in US dollar terms, in our neonatal and patient warming revenue was driven by the excellent performance of our neonatal warmers, and by our neonatal breathing systems, which include our infant continuous positive airway pressure (CPAP) system and infant resuscitator.

Belgium, Germany and Austria. Additions have also been made to our sales teams in North America, Germany, the United Kingdom and China to support growth. We have also increased our presence in India with the establishment of a sales branch and warehouse to support our distributor network.

We have agreed to provide NZ$1 million in sponsorship towards the development of a clinical education centre at the new Auckland City Hospital. The centre will be named the Fisher & Paykel Healthcare Clinical Education Centre and will serve as a world-class regional facility for clinical education, training and conferences. This sponsorship recognises our long-standing associations with Auckland Hospital, National Women's, Greenlane and Starship, which are now on the one site at Auckland City Hospital. Our relationship began more than 35 years ago, as much of the original clinical development of our world leading humidification technology took place at Auckland Hospital.

In addition to generating positive results, our company this year took the opportunity to enhance value for our shareholders through an on-market share buy-back programme of up to NZ$27.5 million. We made this decision following a detailed review of our capital management alternatives and decided that repurchasing our shares was the best use for surplus funds. Share purchases began on 22 March, with 499,927 shares purchased up to 28 May 2004 at an average price of NZ$11.99 per share.

The Board and management were gratified by the confidence shown in the company by institutions following Fisher & Paykel Appliances Holdings Limited's decision to sell its 19.34% shareholding in Fisher & Paykel Healthcare Corporation Limited. More than 40 existing and new institutional shareholders participated in the placement, which we consider a very positive outcome, and we welcome these shareholders to the Company.

The Board is committed to maintaining the highest standards of corporate governance and an expanded discussion of our governance policies and processes is included within the Corporate Governance section of the Annual Report.

The Board appreciates that our strong performance and our continued good prospects for growth in the 2005 financial year are the result of the daily efforts of our sales and marketing staff worldwide, the innovations of our research and development teams, the dedication of our manufacturing and operations staff, our excellent relationships with our distributors, suppliers and clinical partners and, of course, the confidence of our customers. We thank them all for their contributions to our positive results.

We believe our shareholders will continue to be rewarded for the confidence they have shown in us and our vision to create value for them through the design, development, manufacturing and sales of healthcare devices worldwide.

**Gary Paykel CNZM**
Chairman

Chief Executive's Report

# Clear results from growth strategy

Michael Daniell - Managing Director
and Chief Executive Officer

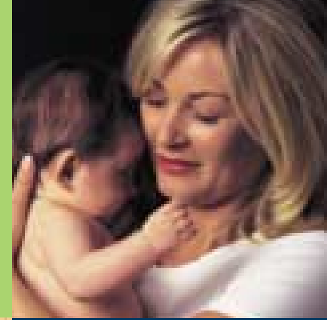
Our strategy for creating value for our shareholders and our customers has remained very consistent.

We enhance and expand our product range by improving existing products and developing complementary new products. We increase the range of patients we are able to serve by developing our technologies for new medical applications. We strengthen our international sales networks to support our customers and to drive increased sales.

Across our core product groups the results of this strategy are evident, with a significant share of our increased revenue derived from new products.

Each of our product groups performed well in the year, contributing to a 29% gain, in US dollar terms, in operating revenue from our core product range. This increase was driven by strong growth in sales of respiratory humidification systems, devices for the treatment of obstructive sleep apnea and neonatal and warming products.

For the 2004 financial year, North America generated 44% of our revenue, Europe 30% and Asia Pacific and Other 26%.



**Increased revenue…** Each of our product groups performed well in the year, contributing to a 29% gain, in US dollar terms, in operating revenue from our core product range.

## RESPIRATORY HUMIDIFICATION

Heated humidification improves patient care in the treatment of a variety of medical conditions which interfere with normal respiration. Warming and moistening of the gases delivered through ventilation or oxygen therapy helps to reproduce the normal functioning of the nose and airways and reduces airway moisture loss and the occurrence of adverse side effects. We estimate that the respiratory humidification market worldwide is worth more than US$330 million annually and is growing at around 5% per year.

In this market, our respiratory humidification product group revenue grew an impressive 34% in US dollar terms to US$68 million. As we disclosed in our interim report, the SARS outbreak was a contributor to this growth, with SARS related sales contributing approximately US$2 million during the year.

Allowing for those sales and the effects of currency translation, underlying growth over the prior year was a very healthy 14% for respiratory humidification. This underlying growth continued to be driven by ongoing market share gains by our MR850 humidifier system, which generated strong growth in both adult and neonatal breathing circuits.

During the year we introduced a number of new single patient use products. These included a non-invasive ventilation breathing circuit, flexible catheter mount and breathing circuit weaning kit.

We believe that these, along with other new products in our development pipeline, have the potential to significantly increase the value of consumables we supply for each respiratory patient. They all incorporate features to improve humidity delivery and to consequently improve patient care. We are already beginning to see an increase in value per patient from expiratory filters, a previously introduced add-on consumable.

Single use breathing circuits for neonates, initially introduced in Australia and New Zealand two years ago, were released into our worldwide markets last year and received United States Food and Drug Administration clearance in July 2003.

Over the year we have completed the introduction of our MR810 humidifier system to most of our markets. This new product will steadily replace our current entry level respiratory humidifier controller, the MR410, and provides our customers with the option of using our single use heated breathing circuits.

In March 2004 we introduced revolutionary new breathing circuits which we believe to be a world first. The new breathing circuits incorporate our dry tube technology, which allows water vapour exhaled by patients on artificial ventilation to evaporate into the surrounding air, rather than condense into liquid which can build up in the breathing circuit or ventilator. This new technology has been very favourably received by our customers.

In an important development during the year our US hospital distributor, Cardinal Health, established a new shared primary purchasing agreement with Premier, one of the United States' largest hospital group purchasing organisations. The significance of this is twofold. We expect that the new arrangement will increase penetration of our sophisticated MR850 humidifier system into Premier hospitals and that this, in turn, will drive increased sales of our adult and neonatal breathing circuits.

We are seeking to extend the use of our respiratory humidification and breathing system technologies to treat other medical conditions. An example is chronic obstructive pulmonary disease (COPD), projected to be the fifth major cause of death worldwide by 2020. We are in the second year of a research project targeting breakthrough treatments for this disease, and we expect to be introducing our first new product in this area within the next twelve months.

This project, which has NZ$3.6 million in funding over four years from the New Zealand Foundation for Research, Science and Technology, is being conducted with our clinical partners at Middlemore Hospital.

CASE STUDY

## A World First in Breathing Circuit Technology

We achieved what we believe to be a world first in breathing circuit technology when we released a circuit incorporating a water vapour permeable membrane in March 2004.

Dealing with condensed water is one of the problems health professionals face with patients on artificial ventilation in intensive care. Our revolutionary circuit, with its dry expiratory tube, can prevent this problem occurring.

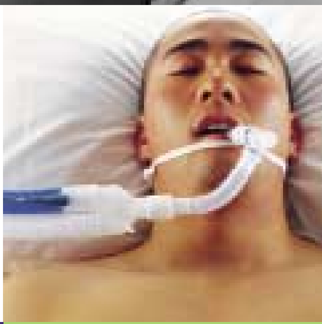
Development of the circuit took more than three years and required our researchers to overcome significant design and manufacturing challenges. The major task was developing a commercially feasible way to incorporate the very fine membrane into the expiratory tubing without damage.

The circuit's design effectively makes it a closed system, meaning patients in hospitals have less exposure to sources of infection. While the membrane allows water to evaporate, its properties are such that pathogens cannot pass through.

We have patent applications in place for the technology in New Zealand, the United States and selected international markets. The permeable tubing is manufactured at our Auckland facility.


## KEY PRODUCTS

- MR850 Respiratory Humidifier
- MR810 Respiratory Humidifier
- MR730 Respiratory Humidifier
- MR410 Respiratory Humidifier
- MR200 Series Respiratory Humidifier Chambers
- Single Use Adult Breathing Circuits
- Single Use Neonatal Breathing Circuits




## RESPIRATORY HUMIDIFICATION PRODUCT REVENUE

NZ $ MILLIONS

| | |
|---|---|
| **04** | **110.9** |
| 03 | 102.6 |
| 02 | 109.3 |
| 01 | 102.6 |
| 00 | 78.1 |
| 99 | 72.8 |

US $ MILLIONS

| | |
|---|---|
| **04** | **68.1** |
| 03 | 50.8 |
| 02 | 45.5 |
| 01 | 44.7 |
| 00 | 40.3 |
| 99 | 38.1 |

## OBSTRUCTIVE SLEEP APNEA

OSA is a disorder that disrupts a person's breathing frequently during sleep, leading to excessive daytime sleepiness. The disorder is associated with cardiovascular disease and stroke and is directly linked to hypertension. OSA is most commonly treated with CPAP (continuous positive airway pressure) therapy delivered to the patient via a small air flow generator, tube and mask.

Indications are that the OSA market continues to grow rapidly, as diagnosis rates and awareness of the disorder increase. We estimate this growth is in the 15-20% range per annum and the market is worth around US$800 million annually. Our results in this market reflect that upward trend.

Our total revenue from flow generators and masks grew 35% in US dollars for the year and a very encouraging 45% in the second half of the year. Total revenue growth for the OSA product group reached 17% for the year.

CASE STUDY

# FlexiFit™ The Perfect Fit

Three years of design and development culminated this year in the release of the latest addition to our FlexiFit™ series of masks, the HC407 nasal mask, used in the treatment of OSA.

Its development included analysing data from thousands of face measurements to perfect a seal that conforms automatically to most face shapes. For OSA patients, comfort is an important factor in compliance with their treatment. This mask, which is in our premium range, reduces leaks and is both comfortable and very easy to fit.

The new mask also includes the company's patented glider technology which provides stability and allows freedom of movement. The mask is more compact and less obtrusive, features also appreciated by OSA patients.

We are confident this new mask has the potential to further improve patient comfort and compliance with CPAP therapy. We believe it will contribute to a continuation of strong revenue growth and market share gains from masks.

## KEY PRODUCTS

- HC220 LE Series Integrated CPAP Flow Generator-Humidifier
- HC210 Series Convertible CPAP Flow Generator
- HC150 CPAP Heated Humidifier
- 900HC105 Starter Kit
- HC405 FlexiFit™ Nasal Mask
- HC407 FlexiFit™ Nasal Mask
- HC431 FlexiFit™ Full Face Mask
- Aclaim2 Nasal Mask
- Oracle Oral Mask
- HC300 Series Chambers

## OSA PRODUCT REVENUE

NZ $ MILLIONS

| | |
|---|---|
| **04** | **79.7** |
| 03 | 84.9 |
| 02 | 79.0 |
| 01 | 63.3 |
| 00 | 38.2 |
| 99 | 21.6 |

US $ MILLIONS

| | |
|---|---|
| **04** | **49.1** |
| 03 | 42.0 |
| 02 | 32.9 |
| 01 | 28.8 |
| 00 | 19.8 |
| 99 | 11.4 |

Again, new products made a valuable contribution to this performance. Our new HC221LE and HC211 convertible flow generators have been very well received by customers following their release in June 2003 at the Associated Professional Sleep Societies' meeting in Chicago.

Both incorporate the next generation of Fisher & Paykel Healthcare's in-house developed quiet motor and fan technology. The HC221LE also features our new Ambient Tracking™ Plus technology, which controls humidity output with changing room temperature and airflow, avoiding condensation build-up and providing greater humidity and comfort for the patient. The HC211 flow generator can be easily converted to fully integrated humidity including Ambient Tracking™ Plus technology.

We have also seen a strong uptake of our HC405 FlexiFit™ mask, which we introduced in September 2003, and we have had an enthusiastic initial reaction to the HC407 FlexiFit™ mask, which we began to introduce in March 2004. We further expanded our range of interfaces with the introduction of the HC431 FlexiFit™ full face mask in May 2004.

## NEONATAL CARE AND PATIENT WARMING

Neonatal care and patient warming revenue grew a spectacular 63% in US dollar terms to US$9.8 million.

This was achieved through very strong revenue growth from neonatal warmers, with a favourable price and customer mix, and growth in sales from neonatal breathing systems, which include our infant CPAP system and resuscitator.

The growth achieved with our infant CPAP system confirms our confidence in this product, which was introduced to our international markets last year. Our bubble CPAP system provides breathing support, via two small nasal tubes, to newborn babies in intensive care. The water bubbling system creates oscillating air pressure in the infant's lungs which clinicians believe may improve gas exchange.

With their market acceptance growing, the CPAP system and resuscitator are beginning to generate growing, ongoing consumable revenues.

As part of our strategy to offer products for use in the operating room, during the year we completed the development of our second generation patient radiant warmer. This new product, which incorporates technology for measuring and controlling infra-red intensity, is intended for use in warming patients during surgery and in the recovery room.

With the annual worldwide neonatal and patient warming market estimated to be worth more than US$200 million in total, we will continue to target growth opportunities through new products.

## RESEARCH AND DEVELOPMENT

| INVESTMENT IN R&D | 2004 NZ$14.1 MILLION | 2003 NZ$11.5 MILLION |
|---|---|---|
| R&D investment as % of revenue | 6.6% | 5.5% |
| R&D staff | 150 | 130 |
| Patents as at 31 March: | | |
| US granted | 45 | 32 |
| US applications | 58 | 53 |
| Rest of world granted | 52 | 48 |
| Rest of world applications | 214 | 158 |
| New Zealand provisional patents | 21 | 28 |

Research and development continues to underpin our business strategy to use our growing expertise and technologies to produce products that can drive our growth in the respiratory care, critical care, OSA, neonatal care and related markets.

This strategy involves the development of innovative products and processes, the targeting of new medical applications for our technologies and continued improvement of existing product lines. Our R&D pipeline is very healthy with a number of significant product introductions planned for the coming year including new humidifier systems, flow generators and masks.

Our research and development teams, which this year increased by 20 to 150 staff in total, comprise more than 20% of our New Zealand based staff and draw together talents in physiology and mechanical, electronic and process engineering.

The teams are linked to an international network of clinical researchers who validate the technology and physiology involved in new products. Findings from their clinical trials, studies and research contribute not only to improved

## KEY PRODUCTS

- IW930 Cosycot Infant Warmer
- IW910 Mobile Infant Warmer
- RD900 Neopuff Infant Resuscitator
- PW820 SunTouch Patient Warmer
- Infant Bubble CPAP System
- Single Use Breathing Circuits

## NEONATAL CARE AND PATIENT WARMING PRODUCT REVENUE

NZ $ MILLIONS

| | |
|---|---|
| **04** | **15.8** |
| 03 | 12.2 |
| 02 | 13.8 |
| 01 | 10.4 |
| 00 | 6.3 |
| 99 | 4.8 |

US $ MILLIONS

| | |
|---|---|
| **04** | **9.8** |
| 03 | 6.0 |
| 02 | 5.7 |
| 01 | 4.4 |
| 00 | 3.3 |
| 99 | 2.5 |

## NEW PRODUCTS INTRODUCED IN THE LAST 12 MONTHS

Adult Dry Tube Breathing Circuit

Neonatal Dry Tube Breathing Circuit

HC405 FlexiFit™ Nasal Mask

HC407 FlexiFit™ Nasal Mask

HC431 FlexiFit™ Full Face Mask

HC210 Series Convertible Flow Generator

HC011 Heated Humidification Upgrade Kit

CosyCot Infant Warmer Storage System

Paediatric CPAP Midline Interface

Extended range of Neonatal CPAP Interfaces

understanding of respiratory conditions and neonatal care, but also to wider appreciation of our products' clinical benefits.

Our close and productive relationship with Middlemore Hospital and the Centre for Clinical Research and Effective Practice, which has led to the development of a number of value-added exports, continues to be effective and productive for both organisations. Good progress has been made in a number of projects including the project targeting breakthrough treatments for chronic obstructive pulmonary disease (COPD).

## SALES AND MARKETING

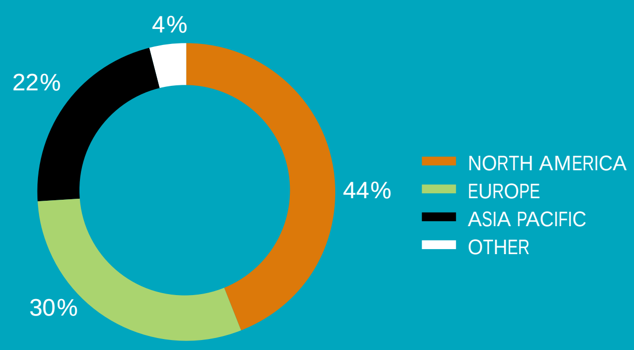
Our strong and expanding direct sales and distributor network has made a significant contribution to the growth we achieved in our 90 international markets this year.

Europe, for example, contributed 30% of our revenue this year, with sales up 37% in US dollar terms – reflecting the benefits of our expanded sales network in this important market. Our European customers are supported by direct sales teams operating in the United Kingdom, Ireland, France, Belgium, the Netherlands, Germany, Luxembourg, Austria, Italy and Spain.

The Italy and Spain sales teams made their first full-year contribution to sales this financial year. As with several other European markets, Italy and Spain are supported by our Paris-based distribution centre. They are focused on two of the five largest markets in Europe, with a combined population of almost 100 million, and offer strong growth opportunities in both OSA and respiratory humidification. Our newest direct sales initiative, planned for Switzerland this year, is expected to mirror the positive performance of our other European operations.

We continue to increase our presence in the populous markets of India and China where we see exciting growth opportunities. In India we have established an in-market warehouse to support our sales and distributor network in that country.

REVENUE BY REGION




In China, where we established a representative office in Guangzhou in 2003, we have increased our team to provide additional support to our local network of distributors.

Our strategy is to complement our direct sales operations with well-supported distributors in other markets, using the best channels to meet the needs of customers who include hospitals, long-term care facilities and home healthcare dealers.

In North America, which this year generated 44% of revenue, we strengthened our partnership with Cardinal Health with positive results. Cardinal Health is a major provider of products and services to the healthcare industry and is the preferred supplier to a number of group purchasing organisations, some of which can represent as many as 3,000 hospitals.

This year, Cardinal established a new shared primary purchasing agreement with Premier, one of the United States' largest hospital purchasing organisations. We expect this arrangement will not only increase penetration of our humidifier systems into Premier hospitals, but also grow demand for consumables such as humidifier chambers and breathing circuits.

We also signed a shared primary purchasing agreement with Apria Healthcare Group, the United States' largest provider of home healthcare services. The US home care market, which is where the majority of our OSA products are sold, is spread across more than 4,000 dealers. This new agreement with Apria gives us access to their 425 stores.

## MANUFACTURING, REGULATORY AND OPERATIONS

In our processes and in our products we seek continuous improvement and the highest level of quality.

With the healthcare device industry regulated worldwide, our ability to meet stringent standards is vital to market acceptance of our products. We ensure our compliance to these standards by operating a quality management system, certified by a range of international standards based on the ISO9000 series. This system applies to both our manufacturing facilities and sales network.

We are required to comply with the United States Quality System Regulation and obtain clearance from the US Food and Drug Administration for new products prior to sale into the United States. Underwriters Laboratories also carry out safety tests on products designed for the US market and certify our products' compliance with the IEC 60601-1 electrical safety standard. We are also required to comply with the European Medical Device Directive, incorporating the quality standard ISO13485.

In addition, TUV Product Service, a European notified body, audits our New Zealand facility and international offices annually. This is required to maintain the certification that allows us to place a CE mark on our products for entry into European Union markets and to meet Canadian and Australian regulatory requirements.

Our purpose-built 28,000$m^2$ facility in Auckland incorporates a Class 100,000 controlled working environment for the manufacture and assembly of our

single use products, including chambers and breathing circuits. Production quality is continuously monitored, with all products rigorously tested before final packaging.

During the year we completed the implementation of our integrated enterprise resource planning system into all of our international offices. This system is used for forecasting, scheduling, manufacturing, ordering components, processing orders and managing inventory. Extension of this system into all of our facilities will enable us to improve customer service levels through real time reporting of sales and improved inventory management.

Within our manufacturing facility we achieved approximately NZ$2m in annualised savings through better design, purchasing and processes, which included the automation of some processes using technology developed in-house. We are committed to automation as a means of improving health and safety, reducing costs, enhancing our production capability and improving the quality and consistency of our products.

## ENVIRONMENT

In the operation of our business we strive to live up to the commitment we make in our values to minimise the impact of our operations on the environment. We aim to develop products and manufacturing processes which are as friendly to the environment as practicable.

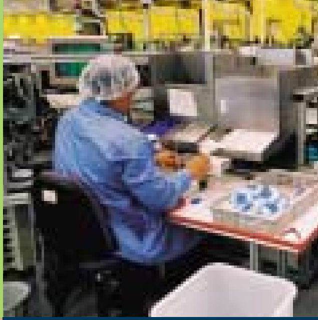
To assist with our environmental responsibilities, we have in place an environmental management system which is certified to ISO14001, the international environmental management standard. We are audited and certified annually by the Swiss-based European notified body, Société Générale de Surveillance (SGS).

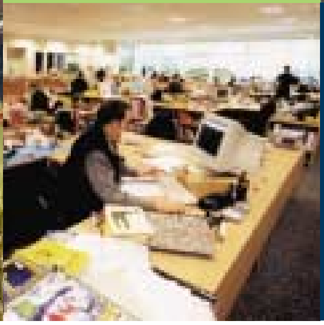
Over the past year we continued to improve our recycling processes and our recycling of plastics, paper and metals increased by 24% to 87 tonnes from our Auckland facility. By working closely with our plastics recycler we have increased the amount of plastic recycled by 80% compared to the prior year. This has allowed us to achieve the milestone of recycling more waste than we have sent to landfill.

Our 40 hectare site at East Tamaki, Auckland includes a landscaped settlement pond that takes rainwater runoff from our building roof, car parks and surrounding roads. The pond helps to minimise sediment entering the nearby Tamaki River. The landscaped pond and buildings were awarded a Silver Award in the Commercial/Industrial/Institutional category in the Pride of Place Landscape Awards 2004. These Awards are given by the NZ Institute of Landscape Architects and the Landscape Industries Association of NZ.

## HUMAN RESOURCES

Worldwide we employ approximately 900 people. Our human resources strategy continues to be focused on attracting, retaining and developing our family of employees around the world and we ensure this by adopting 'best practice' initiatives and systems to support the development of our people. We continue to support equal employment opportunity principles for all of our employees.





Our continuous improvement philosophy is applied to our learning and development initiatives and provides ongoing development opportunities for all employees.

We participated in the 'Best Places to Work' survey for the second time in New Zealand. Over the year we have focused on a number of initiatives following feedback from our employees. Some of these initiatives included understanding company purpose and values, internal communication strategies and reviewing our performance evaluation methodology. Our company featured again in the top five 'Large Employer' category and we believe we have made good progress in the areas identified.

## HEALTH AND SAFETY

We are committed to providing our people with a healthy and safe working environment. A robust Health & Safety management system, which has been audited by the NZ Accident Compensation Corporation (ACC) and certified to its Workplace Safety Programme at the tertiary level, is maintained at our Auckland site.

To sustain the tertiary certification awarded in May 2003 we have continued to improve our systems and have undertaken internal audits. Our Health & Safety team has continued to develop, with our employee representatives undergoing training approved by the NZ Department of Labour. These initiatives represent a significant step towards achieving excellence in health and safety and also ensure that we meet our legal responsibilities.

## OUTLOOK

Our opportunities for growth continue to be positive, and in the current year we expect strong underlying revenue growth at a similar level to the 2004 financial year.

We will continue to increase our international presence, with expansion of our sales teams and increasing activity in our key markets. We again expect a number of significant new product introductions including new humidifier systems, flow generators and masks.

**Michael Daniell**
Managing Director and
Chief Executive Officer

# Board of Directors

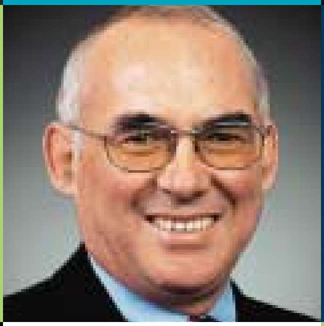

GARY PAYKEL


MICHAEL DANIELL


MICHAEL SMITH


NIGEL EVANS


ADRIENNE CLARKE


LINDSAY GILLANDERS


SIR COLIN MAIDEN

### Gary A. Paykel

Gary A. Paykel, 62, became Chairman upon completion of the reorganisation in November 2001. Mr Paykel had previously served as a director of Fisher & Paykel Industries Limited since August 1979. Mr Paykel served as Chief Executive Officer from December 1989 and Managing Director of Fisher & Paykel Industries Limited from April 1987 until the completion of the reorganisation of the company. 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 served as Chairman of Panprint Limited since September 1984, and as a director of Panprint Limited since May 1975 and of Sports Drinks Limited since October 1994. Mr Paykel is a Companion of the New Zealand Order of Merit.

### P. Michael Smith

P. Michael Smith, 59, became a director and Deputy Chairman upon completion of the reorganisation in November 2001. Mr Smith has been Chairman of The Lion Foundation since 1989 and served as a director of Lion Nathan Limited from August 1986 to May 2001. Mr Smith has been a director of Tru-Test Limited since July 2000 and Chairman since December 2003, Auckland International Airport Limited since June 1998, ING Property Trust Management Limited since October 2002, Hauraki Private Equity No. 1 Fund since March 2002 and Hauraki Private Equity No. 2 Fund since February 2004. 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

Michael G. Daniell, 47, became Managing Director and Chief Executive Officer upon completion of the reorganisation in November 2001. Mr Daniell served as the General Manager of Fisher & Paykel Industries Limited's healthcare business from May 1990 until November 2001. 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 25 years of international healthcare business experience and has been instrumental in the establishment of many of our 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.

### Nigel T. Evans

Nigel T. Evans, 63, became a director upon completion of the reorganisation in November 2001. Dr Evans has served as 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.

### Adrienne E. Clarke

Adrienne E. Clarke, 66, became a director upon completion of the reorganisation in November 2001. Professor Clarke is a Laureate Professor at the University of Melbourne, a Foreign Member of the American Academy of Arts and Sciences and a Fellow of the Australian Academy of Science. Professor Clarke has served as 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 a Companion 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.

### W. Lindsay Gillanders

W. Lindsay Gillanders, 54, has served as a director of Fisher & Paykel Industries Limited since May 1992 and continues to serve as a Director of the Company. Mr Gillanders has also served as a Director of Fisher & Paykel Appliances Holdings Limited since November 2001, Rangitira Limited since October 2002, and Auckland Packaging Company Limited since October 2002 and as Chairman since September 2003. Until completion of the reorganisation in November 2001 Mr Gillanders was responsible for Fisher & Paykel Industries' legal, regulatory, compliance and intellectual property rights, and worked on major commercial agreements including acquisitions and divestments by both the appliances and healthcare businesses. From November 2001, Mr Gillanders continues to provide legal services under a consultancy arrangement. Mr Gillanders received his Bachelor of Law degree with honours from the University of Auckland, New Zealand.

### Sir Colin J. Maiden

Sir Colin J. Maiden, 71, has served as a director of Fisher & Paykel Industries Limited since May 1978 and as Chairman from 1989 until the reorganisation in November 2001 and continues to serve as a Director of the Company. He has also served as a trustee of Fisher & Paykel Industries' executive share purchase scheme since December 1983. Sir Colin served as the Vice Chancellor of the University of Auckland from January 1971 to November 1994, and has also served as Chairman of Marsh New Zealand Advisory Board since April 1998, Transpower NZ Limited since 1997 and DB Breweries Limited since February 1993. Sir Colin has also served as a director of DB Breweries Limited and its subsidiaries since May 1994, New Zealand Refining Company Limited since April 1991 and Foodland Associated Limited since March 2000. He has also held a number of managerial positions with General Motors Corporation in the U.S. and was a senior lecturer in mechanical 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.

# Directors' Report

Your Directors are pleased to submit to shareholders their Report and Financial Statements for the year ended 31 March 2004.

## PRINCIPAL ACTIVITIES

Fisher & Paykel Healthcare Corporation Limited (the Company) is a world leading designer, manufacturer and marketer of heated humidification products and systems for use in respiratory care and the treatment of obstructive sleep apnea. In addition, the Company manufactures and markets patient warming and neonatal care products, and infant resuscitators and CPAP systems designed to improve infant respiratory function.

## GROUP PROFIT

An operating profit before taxation of $79.0 million (2003 $73.9 million) was earned for the year ended 31 March 2004.

The profit after taxation was $54.7 million (2003 $72.9 million).

Earnings per share were 53 cents (2003 71 cents).

## SHAREHOLDERS' EQUITY

Shareholders' Equity at 31 March 2004 totalled $191.2 million (2003 $192.8 million).

## ISSUES OF SECURITIES

During the year 7,210 shares were issued under approved Employee Share Purchase Schemes in accordance with the Company's constitution.

During the year 667 shares were issued under an Employee Share Option Plan upon the exercise of previously granted share options.

During the year 70,000 share options were issued under an approved Employee Share Option Plan.

## DIVIDEND

The Directors approved a final dividend to be paid on 18 June 2004 of 28 cents per share (27 cents), resulting in total dividends of 52 cents per share (50 cents) for the year. All dividends carried full imputation credits.

## DIRECTORS

In accordance with the Company's constitution, Adrienne Clarke and Nigel Evans retire and, being eligible, offer themselves for re-election.

## DISCLOSURE OF INTERESTS BY DIRECTORS

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

## NEW ZEALAND STOCK EXCHANGE WAIVERS

On 20 February 2004, Fisher & Paykel Appliances Holdings Limited (FPA) sold its 19.34% shareholding in the Company by way of an institutional bookbuild. As part of the sale arrangements, FPA agreed to provide a customary indemnity to the Company for any matters arising out of the sale. This indemnity is a continuing obligation and survives completion of the sale.

Because FPA and the Company were related parties of each other at the time the indemnity was given, the amount payable under the indemnity by FPA, and consequently any amount received by the Company under the indemnity were capped at the maximum amount permitted by the New Zealand Exchange (NZX) and Australian Stock Exchange (ASX) Listing Rules.

As part of the negotiations, it was agreed that the cap would apply unless the NZX and, if required, the ASX were prepared to grant a waiver to the related party transaction rules (being Rule 9.2 of the NZX Rules and, to the extent it applies, Rule 10.1 of the ASX Listing Rules). FPA and the Company agreed to apply to NZX and ASX for waivers from the relevant rules so that the indemnity would not be limited.

The ASX did not consider that the ASX rules on Transactions with a Person of Influence applied to this indemnity. The NZX granted a waiver to the related party transaction rules in respect of the indemnity. Accordingly, the indemnity given by FPA to the Company is not limited.

## REMUNERATION OF DIRECTORS

Non-executive Directors received the following Directors' fees from Fisher & Paykel Healthcare Corporation Limited in the year ended 31 March 2004:

| | $ |
|---|---|
| A E Clarke | 49,634 |
| N T Evans | 60,500 |
| W L Gillanders | 44,000 |
| C J Maiden | 66,000 |
| G A Paykel | 88,000 |
| P M Smith | 88,000 |

As part of the November 2001 reorganisation, Sir Colin Maiden will receive from the Company a retirement benefit of $170,000 on his retirement.

Previously Sir Colin Maiden was to retire on or before the 2004 annual shareholders meeting. Sir Colin Maiden has, at the request of the Board, agreed to continue as a Director and his retirement allowance will now be paid upon his eventual retirement from the Board.

In accordance with a consultancy agreement entered into as part of the 2001 reorganisation, Mr W L Gillanders received from the Company consultancy fees of $200,000 in the year ended 31 March 2004.

Mr M G Daniell acting in his capacity as an employee of Fisher & Paykel Healthcare Corporation Limited received fixed remuneration inclusive of the value of benefits in the year ended 31 March 2004 of $520,348.

In addition to Mr M G Daniell's fixed remuneration were performance based at risk components, both paid and accrued, of $115,293. Mr M G Daniell was also issued 70,000 options on 15 August 2003 with a remuneration value of $55,000. These options were valued using the Black Scholes valuation model. The assumptions for this calculation are included in Note 9 of the Financial Statements.

Mr M G Daniell in his capacity as an Executive Director does not receive remuneration as a Director of the Company or any subsidiary Company.

No employee of the Company or its subsidiaries receives or retains any remuneration or other benefits as a Director. Remuneration inclusive of the value of other benefits received by such employees is included in the relevant bandings of disclosure of employee remuneration received exceeding $100,000.

**G A Paykel**
Chairman
20 May 2004

**M G Daniell**
Managing Director and Chief Executive Officer
20 May 2004

# Corporate Governance

The Board and management of the Company are committed to ensuring that the Company adheres to best practice governance principles and maintains the highest ethical standards. The Board has agreed to regularly review and assess the Company's governance structures to ensure that they are consistent, both in form and in substance, with best practice.

The Company is listed on both the New Zealand and Australian stock exchanges. Corporate Governance principles and guidelines have recently been introduced in both jurisdictions. These include the Australian Stock Exchange (ASX) Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the New Zealand Stock Exchange Listing Rule changes relating to corporate governance, the New Zealand Exchange (NZX) Corporate Governance Best Practice Code, and the New Zealand Securities Commission's Governance Principles and Guidelines (the Principles).

During the year the Board undertook an extensive review of its governance policies and structures which culminated in the adoption of a Governance Manual for the Company consisting of various charters and policies which reflect the Principles.

The Board considers that following the implementation of actions identified in the review, the Company's corporate governance practices and procedures substantially comply with the Principles as those Principles have been progressively finalised over the relevant period.

## CODE OF CONDUCT (ETHICS)

The Company expects its employees and Directors to maintain high ethical standards. As part of the governance review, a Code of Conduct for the Company and a separate Directors' Code of Conduct have been adopted.

Both codes of conduct address, amongst other things:

- conflicts of interest;
- receipt of gifts;
- corporate opportunities;
- confidentiality;
- expected behaviours;
- delegated authority;
- reporting issues regarding breaches of the Code of Conduct, legal obligations or other policies of the Company; and
- obligations for a Director to act in good faith and in what the Director believes to be the best interests of the Company.

The full content of the Company's Codes of Conduct can be found on the Company's website (www.fphcare.co.nz). At the date of this annual report, no instances of unethical behaviour have been reported under the Company's Code of Conduct.

## RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The business and affairs of the Company are managed under the direction of the Board of Directors. At a general level, the Board is elected by shareholders to:

- establish the Company's objectives;
- develop major strategies for achieving the Company's objectives;
- manage risks;
- determine the overall policy framework within which the business of the Company is conducted; and
- monitor management's performance with respect to these matters.

The Board Charter regulates internal Board procedure and describes the Board's specific role and responsibilities.

The Board delegates management of the day-to-day affairs and management responsibilities of the Company to the executive team under the leadership of the Managing Director to achieve the strategic direction and goals determined by the Board.

## THE BOARD

### Board Composition

At present, there are seven Directors on the Board. Six out of the seven Directors are non-executive Directors. Mr Daniell is the only executive Director on the Board.

The biography of each Board member is set out in the "Board of Directors" section of this annual report.

Using the Board's criteria for assessment of independence, the Chairman of the Board, Gary Paykel, is not an independent Director as he was employed in an executive capacity by the Company within the last three years. However, from the time of separation of the Company (from Fisher & Paykel Appliances) in 2001, Mr Paykel has not been involved in an executive capacity. The Board has considered that it is appropriate to appoint Mr Paykel as Chairman of the Board given his expertise and skills.

### Independence of Directors

The factors the Company will consider in assessing the independence of its Directors are set out in its Charter, a copy of which is available on the Company's website. No quantitative materiality thresholds have been adopted by the Company because it was considered more appropriate to determine independence on a case by case basis.

After consideration of these factors and criteria, the Company is of the view that:

1. No Director is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
2. There are three Directors who within the last three years have been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment. Those Directors are Gary Paykel, Michael Daniell and Lindsay Gillanders (Mr Gillanders is also a material consultant to the Company);
3. Other than Mr Gillanders there are no Directors who have been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provider, within the last three years;
4. No Director is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
5. Other than Mr Gillanders no Director has a material contractual relationship with the Company or another group member other than as a Director of the Company;
6. No Director has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company. In this context the Board specifically confirms that it has unanimously endorsed Sir Colin Maiden's position as a valued independent Director of the Company; and
7. All Directors are free from any interest or any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Based on the above assessments, the Company considers that four of the current seven Directors are independent Directors, namely, Adrienne Clarke, Nigel Evans, Sir Colin Maiden and Michael Smith.

### Committees

Specific responsibilities are delegated to the Audit Committee, the Remuneration Committee and the Nomination Committee. These Board committees support the Board by working with management on relevant issues at a suitably detailed level and then reporting back to the Board. Each of these committees has a charter setting out the committee’s objectives, procedures, composition and responsibilities. Copies of these charters are available on the Company's website.

## Audit Committee

The Audit Committee's role is to assist the Board in its oversight of all matters relating to the financial accounting and reporting of the Company. The Audit Committee also monitors the processes which are undertaken by management and auditors (both external and internal), including monitoring external auditors in accordance with the External Auditors Policy, a summary of which appears on the website. In addition, the Audit Committee is responsible for the establishment of policies and procedures relating to risk oversight, identification, management, compliance and control.

Under the Board Charter a majority of the Audit Committee members must be independent. The current members of the Audit Committee are Michael Smith (Chairman), Sir Colin Maiden and Nigel Evans. All members of the Audit Committee are independent.

## Remuneration Committee

The Remuneration Committee's role is to assist the Board in establishing relevant remuneration policies and practices. The current members of the Remuneration Committee are Gary Paykel (Chairman), Sir Colin Maiden and Michael Smith. Michael Daniell was a member of the Remuneration Committee but resigned from the Committee on 19 May 2004. The composition of the Committee now satisfies the requirement of the Committee Charter that a majority of Directors be independent.

Using the Board's criteria for assessment of independence, the Chairman of the Remuneration Committee, Gary Paykel, is not an independent Director as he was employed in an executive capacity by the Company within the last three years. However, from the time of separation of the Company (from Fisher & Paykel Appliances) in 2001, Mr Paykel has not been involved in an executive capacity. The Board has considered that it is appropriate to appoint Mr Paykel as Chairman of the Remuneration Committee given his expertise and skills.

## Nomination Committee

The procedure for the appointment and removal of Directors is ultimately governed by the Company's Constitution. A Director is appointed by ordinary resolution of the shareholders although the Board may fill a casual vacancy.

The Board has delegated to the Nomination Committee the responsibility for recommending candidates to be nominated as a Director on the Board and candidates for the committees. When recommending candidates to act as Director, the Nomination Committee takes into account such factors as it deems appropriate, including the experience and qualifications of the candidate.

The current members of the Nomination Committee are Gary Paykel (Chairman), Sir Colin Maiden and Michael Smith. The composition of the Nomination Committee satisfies the requirement of the Committee Charter that a majority of Directors be independent.

The Nomination Committee was not required to meet in the period to 31 March 2004.

**Board Processes**

The Board held 11 meetings during the year ended 31 March 2004. The table below shows attendance at the Board and Committee Meetings. With the exception of January and July, Board meetings are held monthly, with other meetings to deal with matters of urgency occurring from time to time when necessary.

| | BOARD MEETINGS | AUDIT COMMITTEE MEETINGS | REMUNERATION COMMITTEE MEETINGS |
|---|---|---|---|
| A E Clarke | 9 | | |
| M G Daniell | 11 | | 2 |
| N T Evans | 11 | 3 | |
| W L Gillanders | 9 | | |
| C J Maiden | 10 | 3 | 2 |
| G A Paykel | 10 | | 2 |
| P M Smith | 9 | 3 | 2 |
| Total Meetings Held | 11 | 3 | 2 |

There is no formal procedure agreed by the Board to allow Directors to take independent professional advice at the expense of the Company. However, if circumstances arose where a Director needed to obtain independent advice, that Director would as a matter of practice be at liberty to seek such advice at the expense of the Company.

## DIRECTORS' REMUNERATION

The Remuneration Committee is responsible for establishing and monitoring remuneration policies and guidelines for Directors which enable the Company to attract, retain and motivate Directors who would contribute to the successful governing of the Company and create value for shareholders.

The Company also takes advice from independent consultants, taking into account fees paid to Directors of comparable companies in New Zealand and Australia in its assessment of the appropriate level of remuneration.

For details of Directors' remuneration, see the "Remuneration of Directors" section of the "Directors' Report" in this annual report.

Directors do not take a portion of their remuneration under an equity security plan but a number of Directors hold shares in the Company, details of which are set out in the "Directors Shareholding" section of this annual report. It is the Company's policy to encourage Directors to acquire shares on-market.

No non-executive Director is entitled to receive a retirement payment unless eligibility for such payment has been agreed by shareholders and publicly disclosed during his or her term of Board service or such retirement payment is within the limits prescribed by the NZX Listing Rules.

On the retirement of a Director, the NZX Listing Rules allow for a discretionary payment by way of lump sum or pension to that Director only if the total amount of the payment does not exceed their total remuneration in their capacity as a Director in any three years chosen by the Company, and the Director was in office on or before 1 May 2004 and has continued to hold office since that date. If any payment is made it will be within the limits prescribed by the NZX Listing Rules, subject to the discretion of the Board, taking into account a range of factors, including the Director's length of service. The retiring Director does not participate in discussions concerning any retirement payment to be made to them.

The Board has resolved that it will not pay any future retirement benefits to non-executive Directors other than, at the Board's discretion, a retirement allowance of one year's Directors fees to each existing non-executive Director (except for Sir Colin Maiden whose retirement payment is described below), such amount being equal to the average of the annual fees paid to that Director in any three years prior to that Director's retirement or cessation of office, and payable on retirement or cessation of office.

At the time of the separation of the Company in 2001 a retirement payment of $170,000 was agreed to be paid to Sir Colin Maiden on his retirement from the Board following the annual shareholders' meeting in 2004. Sir Colin Maiden has agreed to remain as a Director at the request of the Board and the Board has agreed to defer the payment of the retirement allowance until his retirement. The retirement payments above meet the NZX Listing Rules criteria.

## SENIOR MANAGEMENT REMUNERATION

The Remuneration Committee is responsible for reviewing the remuneration of the Company's senior management in consultation with the Managing Director of the Company.

The remuneration packages of senior management consist of a mixture of a base remuneration package, the Companywide profit sharing bonus, a variable remuneration component based on relevant Company performance, participation in the Company's employee share purchase plan and share options.

The remuneration policy for senior management is designed to attract, motivate and retain high quality employees who will enable the Company to achieve its short and long term objectives. This includes providing performance incentives which allow executives to share in the long term success of the Company. The share option plans operated by the Company are intended to encourage the retention of senior management and to increase the commonality between the interests of management and shareholders.

The ASX recommends (in Principle 9) that listed companies provide details of the nature and amount of remuneration of each of the five highest-paid officers of that company. The Company employs a number of executives in its overseas sales offices and considers that it is inappropriate to follow this recommendation as this disclosure will not provide any meaningful guidance. Remuneration levels in the various overseas countries are not directly comparable given that different remuneration practices are involved. In addition, the employees who would fall within the top five each year will, to a large extent, be dependant on the relative performance of the New Zealand dollar and the relevant foreign currency exchange rates as opposed to individual or corporate performance.

A general and wider disclosure of senior management remuneration is included in the "Employee Remuneration" section of this annual report, where the Company has disclosed in various escalating remuneration bands the number of employees and former employees whose remuneration including benefits exceeds $100,000.

## PERFORMANCE EVALUATION

The Board has a policy in place relating to the performance evaluation of the Board, the Board's committees, individual Directors and executives. During the financial year the Board conducted a performance evaluation of the Board and its members in accordance with its policies. A summary of the Company's Performance Evaluation Policy is available on the Company's website.

The Board Charter requires the Board to undertake an annual performance evaluation of itself that:

- compares the performance of the Board with the requirements of its Charter;
- reviews the performance of the Board's committees;
- sets forth the goals and objectives of the business for the upcoming year; and
- effects any improvements to the Board Charter deemed necessary or appropriate.

## RISK MANAGEMENT

The Company has a number of risk management policies, as well as related internal compliance systems that are designed to:

- optimise the return to, and protect the interests of, stakeholders;
- safeguard the Company's assets and maintain its reputation;
- improve the Company's operating performance; and
- fulfil the Company's strategic objectives.

The Board ultimately has responsibility for internal compliance and control.

At least twice a year the Audit Committee receives an internal audit report. In addition, an annual internal audit plan is presented to and approved by the Audit Committee.

## POLICIES

The Company has in place a number of policies including those covering external auditors, remuneration, market disclosure, communication with shareholders, share trading, human resources and health and safety.

# Financial Commentary

FOR THE YEAR ENDED 31 MARCH 2004

## OVERVIEW

We design, manufacture and market in over 90 countries heated humidification products and systems for use in respiratory care and the treatment of obstructive sleep apnea, as well as patient warming and neonatal care products.

## HISTORICAL FINANCIAL PERFORMANCE

### Year ended 31 March 2004 compared to year ended 31 March 2003

The following table sets forth the consolidated statement of financial performance for the years ended 31 March 2004 and 2003:

| FINANCIAL YEAR ENDED 31 MARCH | 2004 NZ$MILLIONS | 2003 NZ$MILLIONS | 2004 US$MILLIONS | 2003 US$MILLIONS |
|---|---|---|---|---|
| Operating revenue | $214.865 | $208.420 | $132.056 | $103.063 |
| Operating profit | 79.015 | 73.885 | 48.563 | 36.536 |
| Net interest income (expense) | 1.920 | 2.997 | 1.180 | 1.483 |
| Foreign currency exchange profit | - | 34.326 | - | 16.975 |
| Profit before taxation | 80.935 | 111.208 | 49.743 | 54.994 |
| Taxation | (26.236) | (38.304) | (16.125) | (18.941) |
| Profit after taxation | $54.699 | $72.904 | $33.618 | $36.053 |

The following table sets forth supplemental financial data relating to operating revenue and operating expenses for the financial years ended 31 March 2004 and 2003:

| FINANCIAL YEAR ENDED 31 MARCH | 2004 NZ$MILLIONS | 2003 NZ$MILLIONS | 2004 US$MILLIONS | 2003 US$MILLIONS |
|---|---|---|---|---|
| Operating revenue | 214.865 | 208.420 | 132.056 | 103.063 |
| Operating expenses: | | | | |
| Cost of sales | 62.590 | 67.568 | 38.468 | 33.412 |
| Research and development expenses | 14.115 | 11.535 | 8.675 | 5.704 |
| Selling, general and administrative expenses | 59.145 | 55.432 | 36.350 | 27.411 |
| Total operating expenses | 135.850 | 134.535 | 83.493 | 66.527 |
| Operating profit | 79.015 | 73.885 | 48.563 | 36.536 |
| Operating margin | 37% | 35% | 37% | 35% |
| Gross profit | 152.275 | 140.852 | 93.588 | 69.651 |
| Gross margin | 71% | 68% | 71% | 68% |

## OPERATING REVENUE

Our operating revenue increased by approximately 3 percent to NZ$214.865 million for the financial year ended 31 March 2004 from NZ$208.420 million for the financial year ended 31 March 2003.

The increase was principally due to increased sales volume from our core products, respiratory humidification, OSA and patient warming and neonatal care during the financial year, partially offset by a significant increase in the value of the New Zealand dollar particularly against the US dollar.

# Financial Commentary

FOR THE YEAR ENDED 31 MARCH 2004

The following table sets forth operating revenue by product group for the financial years ended 31 March 2004 and 2003:

FINANCIAL YEAR ENDED 31 MARCH

| | 2004 NZ$MILLIONS | 2003 NZ$MILLIONS | PERCENTAGE VARIATION | 2004 US$MILLIONS | 2003 US$MILLIONS | PERCENTAGE VARIATION |
|---|---|---|---|---|---|---|
| Product group: | | | | | | |
| Respiratory humidification products | 110.942 | 102.576 | +8% | 68.068 | 50.752 | +34% |
| OSA products | 79.687 | 84.893 | -6% | 49.055 | 41.999 | +17% |
| Patient warming and neonatal care products | 15.849 | 12.157 | +30% | 9.796 | 6.004 | +63% |
| Core products sub-total | 206.478 | 199.626 | +3% | 126.919 | 98.755 | +29% |
| Distributed products | 8.387 | 8.794 | -5% | 5.137 | 4.308 | +19% |
| Total | $214.865 | $208.420 | +3% | $132.056 | $103.063 | +28% |

Sales of respiratory humidification products increased by approximately 34 percent in US dollar terms in the financial year ended 31 March 2004 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 2004. This increase was driven by strong market share gains in both adult and neonatal breathing circuits and an increasing move towards our MR850 humidifier technology. We also benefited from additional demand in the early part of the financial year due to the SARS outbreak.

Sales of OSA products increased by 17 percent in US dollar terms in the financial year ended 31 March 2004 from sales in the prior year. Excluding the effects of currency translations, sales of OSA products are estimated to have increased by approximately 12 percent in the financial year ended 31 March 2004. Growth was driven by an increasing acceptance of our technologies and an increasing understanding of the need to treat OSA and the important role humidification plays in its treatment. Revenue growth from flow generators and masks was 35 percent in US dollars for the financial year.

Sales of patient warming and neonatal care products increased by 63 percent in US dollar terms in the financial year ended 31 March 2004 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 46 percent in the financial year ended 31 March 2004. We achieved very strong revenue growth from both neonatal warmers and breathing systems, which include our infant CPAP system and our Neopuff infant resuscitator.

Sales of distributed products increased 19 percent in US dollars terms in the financial year ended 31 March 2004 from sales in the prior year, primarily due to a significant increase in the value of the New Zealand dollar particularly against the US dollar.

Sales of respiratory humidification products represented approximately 52 and 49 percent of operating revenue for the financial years ended 31 March 2004 and 2003, respectively. Sales of OSA products represented approximately 37 and 41 percent of operating revenue for the financial years ended 31 March 2004 and 2003, respectively. Sales of consumable and accessory products for core products accounted for approximately 51 and 49 percent of operating revenue for the financial years ended 31 March 2004 and 2003, respectively. Operating revenue from respiratory humidification, OSA and patient warming and neonatal care products has grown at compound annual growth rates of 16 and 20 percent in New Zealand and US dollar terms respectively, from 31 March 1999 to 31 March 2004 as we have introduced new products and the markets for these products have expanded.

The following table sets forth our operating revenue for each of the primary regional markets for the financial years ended 31 March 2004 and 2003:

FINANCIAL YEAR ENDED 31 MARCH

| | 2004 NZ$MILLIONS | 2003 NZ$MILLIONS | 2004 US$MILLIONS | 2003 US$MILLIONS |
|---|---|---|---|---|
| North America | 93.610 | 101.511 | 57.722 | 50.071 |
| Europe | 64.469 | 58.304 | 39.594 | 28.938 |
| Asia Pacific | 47.959 | 41.264 | 29.294 | 20.402 |
| Other | 8.827 | 7.341 | 5.446 | 3.652 |
| Total | $214.865 | $208.420 | $132.056 | $103.063 |

# Financial Commentary

FOR THE YEAR ENDED 31 MARCH 2004

In the financial year ended 31 March 2004 approximately 61 percent of revenue was denominated in US dollars. We make a significant proportion of US dollar sales to customers outside the US. Other significant currencies include Euros and British pounds, representing approximately 17 and 8 percent of revenue respectively in the past financial year.

## OPERATING EXPENSES

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

Cost of sales 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.

Research and development expenses 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 NZ$14.115 million for the year ended 31 March 2004 compared to NZ$11.535 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 the respiratory humidification, OSA, and patient warming and neonatal care product groups. Research and development expenses represented 6.6 percent of total operating revenue for the financial year ended 31 March 2004.

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

Selling, general and administrative expenses consist primarily of staff payroll and benefits, travel expenses, marketing and promotional material. Selling, general and administrative expenses increased by approximately 7 percent to NZ$59.145 million in the financial year ended 31 March 2004 compared to NZ$55.432 million in the previous financial year. Excluding the effects of currency translations, selling, general and administrative expenses are estimated to have increased by approximately 17 percent in the financial year ended 31 March 2004. This increase was primarily attributable to an increase in global personnel to support our growing international sales and marketing activities.

## GROSS PROFIT

Gross profit increased to NZ$152.275 million, or approximately 71% of sales, in the financial year ended 31 March 2004 from NZ$140.852 million, or approximately 68% of sales, in the financial year ended 31 March 2003. Gross profit and gross margin percentage increased due to the favourable foreign currency hedging in place during the financial year and product cost-out initiatives.

## OPERATING PROFIT

Operating profit before foreign currency exchange profit increased by 7 percent to NZ$79.015 million in the financial year ended 31 March 2004 from NZ$73.885 million in the financial year ended 31 March 2003.

Operating profit before foreign currency exchange profit increased by 33 percent to US$48.563 million in the financial year ended 31 March 2004 from US$36.536 million in the financial year ended 31 March 2003.

## FOREIGN CURRENCY EXCHANGE PROFIT

Foreign currency exchange profit consisted of net foreign exchange movements on all foreign currency transactions up to 6 November 2002 when the group ceased to mark to market our foreign currency exchange portfolio. The foreign currency profit on mark to market adjustments was nil in the financial year ended 31 March 2004.

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2004 we had NZ$47.578 million in cash and short-term investments and NZ$8.176 million of borrowings. Short-term investments consist of highly liquid commercial paper. All our borrowings are held outside New Zealand and denominated in currencies other than the New Zealand dollar. We had in place credit facilities that permit us to borrow up to a total of the equivalent of approximately NZ$12.164 million, denominated primarily in US dollars and Euros.

# Financial Commentary

FOR THE YEAR ENDED 31 MARCH 2004

Net cash generated from operating activities totalled NZ$60.177 million for the financial year ended 31 March 2004. The net amount of cash that we generated was increased by approximately NZ$38.612 million for the financial year ended 31 March 2004, from approximately NZ$6.807 million in the previous financial year, due to the favourable foreign currency exchange instruments we delivered when compared to spot transaction rates during the period.

The Company's capital expenditures totalled NZ$9.536 million for the financial year ended 31 March 2004. The majority of expenditures related to the purchase of production tooling and equipment, computer equipment and software, and patents.

Net cash used in financing activities was NZ$56.013 million for the financial year ended 31 March 2004. The payment of our final dividend for the prior financial year and interim dividend for the current financial year, along with NZ$2.201 million used to repurchase 187,717 shares under our on-market share buy-back programme, were the main reasons for the significant outflow of funds.

# Auditors' Report

FOR THE YEAR ENDED 31 MARCH 2004

PRICEWATERHOUSECOOPERS

To the shareholders of Fisher & Paykel Healthcare Corporation Limited

We have audited the financial statements on pages 34 to 55. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2004 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 38 to 41.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 March 2004 and their financial performance and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

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

BASIS OF OPINION

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

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

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

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

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and the provision of other assurance related services.

UNQUALIFIED OPINION

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

In our opinion:

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

(b) the financial statements on pages 34 to 55:

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

(ii) give a true and fair view of the financial position of the Company and Group as at 31 March 2004 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 20 May 2004 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Auckland

# Statements of Financial Performance

FOR THE YEAR ENDED 31 MARCH 2004

| PARENT 2003 NZ$000 | PARENT **2004 NZ$000** | | NOTES | CONSOLIDATED **2004 NZ$000** | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|---|
| 64,695 | 48,603 | Operating revenue | 1 | 214,865 | 208,420 |
| 772 | 901 | Operating expenses | | 135,850 | 134,535 |
| 63,923 | 47,702 | Operating profit | | 79,015 | 73,885 |
| | | Interest income | | 2,368 | 3,453 |
| | | Interest expense | | (448) | (456) |
| | | Foreign currency exchange gain | | - | 1,532 |
| | | Unrealised gain on foreign currency instruments | | - | 32,794 |
| 63,923 | 47,702 | Profit before taxation | 2 | 80,935 | 111,208 |
| (1,183) | (353) | Taxation | 3 | (26,236) | (38,304) |
| 62,740 | 47,349 | **Profit after taxation** | | 54,699 | 72,904 |
| | | Earnings per share | | | |
| | | Basic earnings per share | | $0.53 | $0.71 |
| | | Diluted earnings per share | | $0.52 | $0.70 |

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

# Statements of Financial Position

AS AT 31 MARCH 2004

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | NOTES | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|---|
| | | ASSETS | | | |
| | | Current assets | | | |
| 9,574 | 25,037 | Cash and bank balances | | 30,578 | 13,336 |
| 35,000 | 17,000 | Short-term investments | | 17,000 | 35,000 |
| 49 | 54 | Debtors and prepayments | 4 | 49,143 | 58,996 |
| | | Inventories | 5 | 24,076 | 21,852 |
| 3,499 | 3,405 | Taxation | 6 | 1,408 | 4,230 |
| 188 | 177 | Employee share ownership plans loans | 9 | 316 | 359 |
| 68,249 | 65,847 | Intergroup advances | | | |
| 116,559 | 111,520 | Total current assets | | 122,521 | 133,773 |
| | | Long-term assets | | | |
| | | Fixed assets | 7 | 71,545 | 71,448 |
| | | Patents and trademarks | 8 | 2,232 | 1,764 |
| 2,720 | 724 | Employee share ownership plans loans | 9 | 934 | 3,063 |
| 73,995 | 79,414 | Investments in subsidiaries | 10 | | |
| | | Debtors and prepayments | 4 | 11,436 | 8,764 |
| | | Goodwill on consolidation | 11 | 1,800 | 2,185 |
| 56 | 141 | Deferred taxation | 12 | 13,705 | 7,755 |
| 193,330 | 191,799 | Total assets | | 224,173 | 228,752 |
| | | LIABILITIES | | | |
| | | Current liabilities | | | |
| | | Bank overdrafts | 13 | 6,326 | 1,106 |
| | | Trade creditors | | 10,810 | 8,677 |
| | | Provisions | 14 | 746 | 898 |
| | | Borrowings | 15 | - | 2,000 |
| | | Taxation | 6 | 2,392 | 1,971 |
| 343 | 317 | Other liabilities | 16 | 10,159 | 20,114 |
| 343 | 317 | Total current liabilities | | 30,433 | 34,766 |
| | | Long-term liabilities | | | |
| | | Provisions | 14 | 408 | 379 |
| | | Borrowings | 15 | 1,850 | - |
| 170 | 257 | Other liabilities | 16 | 257 | 790 |
| 513 | 574 | Total liabilities | | 32,948 | 35,935 |
| | | SHAREHOLDERS' EQUITY | | | |
| 192,817 | 191,225 | Shareholders' equity | 17 | 191,225 | 192,817 |
| 192,817 | 191,225 | Total shareholders' equity | | 191,225 | 192,817 |
| 193,330 | 191,799 | Total liabilities and shareholders' equity | | 224,173 | 228,752 |

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

On behalf of the Board
20 May 2004

G A Paykel
Chairman

M G Daniell
Managing Director
and Chief Executive Officer

# Statements of Movements in Equity

FOR THE YEAR ENDED 31 MARCH 2004

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | NOTES | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|---|
| 171,883 | 192,817 | Shareholders' equity at the beginning of the year | | 192,817 | 171,883 |
| 62,740 | 47,349 | Group profit | | 54,699 | 72,904 |
| 6,484 | 5,420 | Movement in revaluation reserve | 17 | | |
| | | Movement in currency translation reserve | 17 | (1,930) | (3,680) |
| 69,224 | 52,769 | | | 52,769 | 69,224 |
| 814 | 82 | Issue of share capital | 17 | 82 | 814 |
| 27 | 2 | Increase in equity from disposition of unallocated shares | 17 | 2 | 27 |
| - | (2,201) | Repurchase of share capital | 17 | (2,201) | - |
| (49,131) | (52,244) | Dividends | 17 | (52,244) | (49,131) |
| 192,817 | 191,225 | Shareholders' equity at the end of the year | | 191,225 | 192,817 |

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

# Statements of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2004

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | NOTES | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|---|
| | | CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| | | Receipts from customers | | 237,027 | 217,167 |
| 61,515 | 46,734 | Dividends received | | 4 | 6 |
| 3,560 | 2,028 | Interest received | | 2,355 | 3,612 |
| (889) | (685) | Payments to suppliers and employees | | (153,984) | (134,198) |
| (676) | - | Taxation paid | | (24,726) | (40,348) |
| | | Interest paid | | (499) | (288) |
| 63,510 | 48,077 | Net cash flow from operations | 18 | 60,177 | 45,951 |
| | | CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | | | |
| | | Sale of fixed assets | | 19 | 104 |
| | | Purchase of fixed assets | | (9,536) | (16,460) |
| 114,496 | 98,525 | Sale of short-term investments | | 98,525 | 114,496 |
| (149,099) | (80,761) | Purchase of short-term investments | | (80,761) | (149,099) |
| (34,603) | 17,764 | Net cash flow from (used in) investing activities | | 8,247 | (50,959) |
| | | CASH FLOWS (USED IN) FINANCING ACTIVITIES | | | |
| 3,363 | 2,058 | Employee share purchase schemes | | 2,225 | 3,363 |
| 319 | 82 | Issue of share capital | | 82 | 319 |
| - | (2,201) | Repurchase of share capital | | (2,201) | - |
| 88 | 5 | Disposition of unallocated employee share scheme shares | | 5 | 88 |
| | | New borrowings | | - | 10,664 |
| | | Repayment of borrowings | | (42) | (15,749) |
| (39,010) | 5,760 | Intercompany borrowings | | | |
| (49,131) | (52,244) | Dividends paid | | (52,244) | (49,131) |
| (3,697) | (3,838) | Supplementary dividends paid to overseas shareholders | | (3,838) | (3,697) |
| (88,068) | (50,378) | Net cash flow (used in) financing activities | | (56,013) | (54,143) |
| (59,161) | 15,463 | Net increase (decrease) in cash | | 12,411 | (59,151) |
| 68,735 | 9,574 | Opening cash | | 12,230 | 72,043 |
| | | Effect of foreign exchange rates | | (389) | (662) |
| 9,574 | 25,037 | Closing cash | | 24,252 | 12,230 |
| | | RECONCILIATION OF CLOSING CASH | | | |
| 9,574 | 25,037 | Bank | | 30,578 | 13,336 |
| | | Bank overdrafts | | (6,326) | (1,106) |
| 9,574 | 25,037 | | | 24,252 | 12,230 |

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

# Statement of Accounting Policies

FOR THE YEAR ENDED 31 MARCH 2004

These financial statements are presented in accordance with the New Zealand Companies Act 1993, the New Zealand Financial Reporting Act 1993 and generally accepted accounting practice in New Zealand. The Parent Company's financial statements are for Fisher & Paykel Healthcare Corporation Limited as a separate entity and the Consolidated financial statements are for the Fisher & Paykel Healthcare Group (the Group), which includes all its subsidiaries.

NATURE OF OPERATIONS

Fisher & Paykel Healthcare is a leading designer and manufacturer of heated humidification products and systems for use in respiratory care and the treatment of obstructive sleep apnea. We also offer an innovative range of patient warming devices and neonatal care products. Our products are sold in over 90 countries worldwide.

GENERAL ACCOUNTING POLICIES

The financial statements are based on the general principles of historical cost accounting. Reliance is placed on the Group continuing as a going concern.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## (a) Basis of Consolidation

The Company and subsidiary companies' accounts are consolidated using the purchase method. Subsidiaries are entities that are controlled either directly or indirectly by the parent. All material inter-company transactions are eliminated. The results of subsidiaries 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, respectively.

## (b) 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.

## (c) Revenue Recognition

**Products**

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

**Interest Income**

Interest income is accounted for as earned.

## (d) Advertising and Sales Promotion Costs

All advertising and sales promotion costs are expensed as incurred.

## (e) Earnings Per Share

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

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

## (f) Employee Share Ownership and Option Plans

The Company operates employee share ownership plans for employees. The initial purchase of shares by the schemes is funded by advances from the Company, the advances being recognised as assets in the Statement of Financial Position. No compensatory expense is recognised in the Statement of Financial Performance.

The Company operates share option plans for employees. Options become exercisable in three equal annual instalments between years two and five. No compensatory expense is recognised in the Statement of Financial Performance.

The Company also operates a share purchase plan for United States employees. The employees are able to purchase shares at a discount through the use of payroll deductions. No compensatory expense is recognised in the Statement of Financial Performance.

### (g) Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees. The Company operates pension plans for employees. Contributions to the plans are expensed when made.

### (h) Debtors

Debtors are carried at estimated realisable value after providing for debts where collection is doubtful.

### (i) Inventories

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

### (j) Fixed Assets

Fixed Assets are recorded at cost. Depreciation expense is computed on a straightline basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings - structure | 25-50 years |
| Buildings - fit-out and other | 3-50 years |
| Plant and equipment | 3-15 years |
| Vehicles | 5 years |
| Tooling | 3-7 years |
| Software | 3-10 years |

### (k) Patents

The registration costs of new patents are capitalised and amortised over the estimated useful life of the patent. In the event of a patent being superseded, the unamortised costs are written off immediately to the Statement of Financial Performance.

### (l) Investments

Subsidiary companies are valued at net tangible asset value. Other investments are valued at the lower of cost and net realisable value.

### (m) Leases

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

### (n) Foreign Currency

The Company enters into foreign currency option contracts and forward foreign currency contracts in order to manage its foreign exchange risk.

The purpose of the Company's foreign currency hedging activities is to protect the Company from exchange rate volatility with respect to New Zealand dollar net cash movements resulting from the sales of products in foreign currency to foreign customers, and the purchase of raw materials in foreign currency from foreign and domestic suppliers. The Company enters into forward foreign currency contracts and foreign currency option contracts to hedge anticipated net sales/costs originating in New Zealand and denominated principally in US dollars, Euros, British pounds, and Australian dollars.

Generally, the terms of the foreign currency option contracts and forward foreign currency contracts do not exceed three years, however the foreign currency option contracts can be up to five years.

***Hedging***

As at 1 April 2001 the Company adopted Statement of Financial Accounting Standards No 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended, which standardises the accounting for derivative instruments. The Company's hedging contracts were generally not designated as accounting hedges under SFAS 133 because of the restrictive definitions and therefore were marked to market with the resulting gains and losses being recognised in earnings in the period of change.

Unrealised gains or losses were recognised as incurred on the Statement of Financial Position as either other assets or liabilities and were recorded on the Statement of Financial Performance within other income. Unrealised gains and losses on currency derivatives were determined based on dealer quoted prices.

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

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

Gains and losses and costs arising on foreign currency call options and forward foreign currency contracts that were designated as accounting hedges were deferred until the date of such transactions at which time they were included in the determination of profit before taxation and separately reported as foreign currency exchange profit (loss). Those option or contract instruments that had not been designated as accounting hedges were marked to market with resulting gains and losses being recognised in earnings in the period.

As at 6 November 2002 the Company designated its hedging contracts and options as accounting hedges under Statement of Standard Accounting Practice No 21, "Accounting for the Effects of Changes in Foreign Currency Exchange Rates" (SSAP 21). As a result of this change in policy, the mark to market fair value recorded as at 6 November 2002 under SFAS 133 is retained on the Statement of Financial Position and will be offset against the gain/loss on settlement of the contracts. Movements in the mark to market fair values subsequent to 6 November 2002 are deferred and will be reflected in the Statement of Financial Performance when the anticipated transactions occur. The foreign currency exchange rates used in the mark to market adjustment as at 6 November 2002 have become the effective hedge rates for the foreign currency option contracts and forward foreign currency contracts in place on this date.

Transactions in foreign currencies are converted at the rate of exchange prevailing at the date of the transaction, or at the hedged rate if financial instruments have been used to hedge the foreign currency exposure.

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

***Translation***

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

- the period end closing exchange rate for assets and liabilities; and
- the average rate for revenue and expense transactions during the month.

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

### (o) Research and Development

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

### (p) Government Grants

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

### (q) 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.

### (r) Warranty

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

### (s) 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 Company assets. Where the estimated recoverable amount of the asset based upon the discounted future cash flows is less than its carrying amount, the asset is written down to assessed fair value, with any resulting expense included in the Statement of Financial Performance.

### (t) Statement of Cash Flows

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

(i) Cash comprises cash on hand and bank balances.

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

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

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

### (u) 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 these estimates.

### (v) Prior Year Comparatives

Certain prior year balances have been reclassified to assist comparison to the current year.

### (w) Changes in Accounting Policies

There have been no changes in accounting policies.

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 1 | | OPERATING REVENUE | | |
| | | Operating revenue | | |
| | | North America | 93,610 | 101,511 |
| | | Europe | 64,469 | 58,304 |
| | | Asia Pacific | 47,959 | 41,264 |
| | | Other | 8,827 | 7,341 |
| 61,291 | 46,598 | Dividends | | |
| 3,404 | 2,005 | Interest | | |
| 64,695 | 48,603 | Total operating revenue | 214,865 | 208,420 |
| NOTE 2 | | NET OPERATING PROFIT | | |
| 63,923 | 47,702 | Profit before taxation | 80,935 | 111,208 |
| | | After charging: | | |
| | | Remuneration of auditors: | | |
| | | Audit fees paid to principal auditors | 155 | 150 |
| | | Audit fees paid to other auditors | 132 | 137 |
| | | Other compliance fees paid to principal auditors | 23 | 129 |
| | | Other services paid to principal auditors | 16 | 75 |
| | | Donations | 30 | 41 |
| | | Depreciation: | | |
| | | Buildings - structure | 449 | 474 |
| | | Buildings - fit-out and other | 2,155 | 2,290 |
| | | Leasehold improvements | 27 | 67 |
| | | Plant and equipment | 4,945 | 4,788 |
| | | Total depreciation | 7,576 | 7,619 |
| | | Goodwill amortisation | 385 | 385 |
| | | Patent and trademark amortisation | 419 | 444 |
| | | Interest: | | |
| | | Borrowings | 218 | 160 |
| | | Other | 230 | 296 |
| | | Research and development | 14,115 | 11,535 |
| | | Rental and operating leases | 3,878 | 3,694 |
| | | Bad debts written off | 215 | 517 |
| | | Movement in provision for doubtful debts | (102) | 186 |
| 361 | 396 | Directors' fees | 396 | 361 |
| | | After crediting: | | |
| 61,187 | 46,598 | Dividends received | 4 | 6 |
| | | Foreign currency exchange gain | - | 1,532 |
| | | Unrealised foreign currency instruments gain | - | 32,794 |
| 104 | 11 | Other income | 11 | 110 |

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 3 | | TAXATION | | |
| 63,923 | 47,702 | Profit before taxation | 80,935 | 111,208 |
| 21,095 | 15,742 | Taxation at current rate of 33% | 26,709 | 36,699 |
| | | Adjustments to taxation for: | | |
| (20,222) | (15,400) | Non-assessable income | (9) | (30) |
| 1 | 5 | Non-deductible expenses | 153 | 131 |
| | | Foreign rates other than 33% | 150 | 1,189 |
| 874 | 347 | This year's taxation | 27,003 | 37,989 |
| 309 | 6 | Other | (767) | 315 |
| 1,183 | 353 | Income tax expense | 26,236 | 38,304 |
| | | This is represented by: | | |
| 1,183 | 438 | Current taxation | 40,315 | 43,187 |
| - | (85) | Deferred taxation | (14,079) | (4,883) |
| 1,183 | 353 | Income tax expense | 26,236 | 38,304 |
| NOTE 4 | | DEBTORS AND PREPAYMENTS | | |
| | | CURRENT | | |
| | | Trade debtors | 34,239 | 30,673 |
| | | Less allowance for doubtful accounts | (471) | (623) |
| | | | 33,768 | 30,050 |
| | | Unrealised gain on foreign currency instruments | 7,261 | 19,312 |
| | | Foreign currency option premium prepaid | 43 | 6,531 |
| 49 | 54 | Other debtors and prepayments | 8,071 | 3,103 |
| 49 | 54 | | 49,143 | 58,996 |
| | | TERM | | |
| | | Unrealised gain on foreign currency instruments | 9,294 | 7,173 |
| | | Foreign currency option premium prepaid | - | 13 |
| | | Other debtors and prepayments | 2,142 | 1,578 |
| | | | 11,436 | 8,764 |
| NOTE 5 | | INVENTORIES | | |
| | | Materials | 8,146 | 5,942 |
| | | Finished products | 17,766 | 17,175 |
| | | Provision for obsolescence | (1,836) | (1,265) |
| | | | 24,076 | 21,852 |

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 6 | | TAXATION | | |
| | | BALANCE AT BEGINNING OF THE YEAR | | |
| | | Taxation payable | (1,971) | (2,335) |
| 5,121 | 3,499 | Taxation recoverable | 4,230 | 3,897 |
| (1,183) | (438) | Total taxation expense in current year | (40,315) | (43,187) |
| 61 | - | Taxation paid | 24,726 | 39,733 |
| 3,697 | 3,838 | Supplementary dividend tax credit | 3,838 | 3,697 |
| (4,197) | (3,494) | Other movements | 8,508 | 454 |
| | | BALANCE AT END OF THE YEAR | | |
| | | Taxation payable | (2,392) | (1,971) |
| 3,499 | 3,405 | Taxation recoverable | 1,408 | 4,230 |
| NOTE 7 | | FIXED ASSETS | | |
| | | Land | 6,486 | 6,486 |
| | | Buildings | | |
| | | - Structure | 25,322 | 25,535 |
| | | - Fit-out and other | 22,680 | 22,846 |
| | | Less accumulated depreciation | 6,346 | 3,742 |
| | | | 41,656 | 44,639 |
| | | Total land and buildings | 48,142 | 51,125 |
| | | Leasehold improvements | 580 | 583 |
| | | Less accumulated depreciation | 479 | 473 |
| | | | 101 | 110 |
| | | Plant and equipment | 39,110 | 33,712 |
| | | Less accumulated depreciation | 23,165 | 19,232 |
| | | | 15,945 | 14,480 |
| | | Capital projects | | |
| | | - Buildings | | |
| | | - Other | 7,357 | 5,733 |
| | | | 7,357 | 5,733 |
| | | Total cost | 101,535 | 94,895 |
| | | Less total accumulated depreciation | 29,990 | 23,447 |
| | | | 71,545 | 71,448 |

The independent valuation of land and buildings, excluding capital projects and leasehold improvements, as at 31 March 2004 was $67.500 million (2003 $58.300 million).

| Parent 2003 NZ$000 | Parent 2004 NZ$000 | | Consolidated 2004 NZ$000 | Consolidated 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 8 | | PATENTS AND TRADEMARKS | | |
| | | Patents and trademarks | 552 | 229 |
| | | Less accumulated amortisation | 90 | 35 |
| | | | 462 | 194 |
| | | Patent and trademark applications | 2,545 | 1,982 |
| | | Less accumulated amortisation | 775 | 412 |
| | | | 1,770 | 1,570 |
| | | Total cost | 3,097 | 2,211 |
| | | Less total accumulated amortisation | 865 | 447 |
| | | | 2,232 | 1,764 |
| NOTE 9 | | EMPLOYEE OPTION AND SHARE OWNERSHIP PLANS | | |
| | | Share purchase loans due for repayment: | | |
| 188 | 177 | Current | 316 | 359 |
| 158 | 724 | One to two years | 934 | 329 |
| 2,562 | - | Two to five years | - | 2,734 |
| 2,720 | 724 | Term | 934 | 3,063 |

Share purchase loans are made by the Company under the Share Purchase Schemes to assist with the purchase of fully paid ordinary shares in the Company.

BEFORE REORGANISATION

Shares were 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 1994, 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' loans. Voting rights on the shares are exercisable by the Trustees under the Schemes.

As part of the reorganisation, the shares held by the Trustees in Fisher & Paykel Industries Limited were converted into Fisher & Paykel Healthcare Corporation Limited and Fisher & Paykel Appliances Holdings Limited shares in the same proportions as all other shareholders. The Trustees continue to hold these shares on behalf of Fisher & Paykel Healthcare employees and Fisher & Paykel Appliances employees at the time of the reorganisation. As shares are now held in both Fisher & Paykel Healthcare Corporation Limited and Fisher & Paykel Appliances Holdings Limited comparative information has been restated as if the reorganisation had been completed. No further shares can be issued under these schemes and the loans will be repaid over the next 2 years.

880,110 Fisher & Paykel Healthcare shares (2003 882,569) are held by these Schemes, being 0.9% (2003 0.9%) of the Company's issued and paid up capital. As at 31 March 2004 all shares were allocated to employees or executives (2003 nil unallocated). Once vested an employee participant may elect to transfer the shares into his or her own name, after which the shares are freely transferable.

3,618,720 Fisher & Paykel Appliances shares (2003 3,628,968) are held by these Schemes, being 1.4% (2003 1.4%) of that Company's issued and paid up capital. As at 31 March 2004 all shares were allocated to employees or executives (2003 nil unallocated). 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 were allocated to employees at the time of issue, on the condition that should they leave the Company 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 repurchased shares are sold by the Trustees. Trustees of the Employee Share Purchase Schemes are appointed by the Company.

Information relating to Fisher & Paykel Healthcare shares issued under these Schemes before reorganisation is as follows:

| | 2004 PRICE* $ | 2004 NUMBER OF SHARES | 2003 PRICE* $ | 2003 NUMBER OF SHARES |
|---|---|---|---|---|
| As at beginning of the year | 3.87 | 882,569 | 3.84 | 1,921,751 |
| Vested during the year | 4.70 | (2,459) | 3.80 | (1,030,165) |
| Lapsed due to resignation | - | - | 4.70 | (9,017) |
| As at end of the year | 3.87 | 880,110 | 3.87 | 882,569 |

| | NON-VESTED SHARES OUTSTANDING | PRICE RANGE $ | PRICE* $ | REMAINING PERIOD TO VESTING |
|---|---|---|---|---|
| Period granted or purchased | | | | |
| Pre 31 March 2002 | 880,110 | 3.19 - 15.49 | 3.87 | 2 years |
| | 880,110 | | | |

* Weighted average

Information relating to Fisher & Paykel Appliances shares issued under these Schemes before reorganisation is as follows:

| | 2004 PRICE* $ | 2004 NUMBER OF SHARES | 2003 PRICE* $ | 2003 NUMBER OF SHARES |
|---|---|---|---|---|
| As at beginning of the year | 0.64 | 3,628,968 | 0.64 | 7,918,440 |
| Vested during the year | 0.84 | (10,248) | 0.64 | (4,251,888) |
| Lapsed due to resignation | - | - | 0.84 | (37,584) |
| As at end of the year | 0.64 | 3,618,720 | 0.64 | 3,628,968 |

| | NON-VESTED SHARES OUTSTANDING | PRICE RANGE $ | PRICE* $ | REMAINING PERIOD TO VESTING |
|---|---|---|---|---|
| Period granted or purchased | | | | |
| Pre 31 March 2002 | 3,618,720 | 0.57 - 2.23 | 0.64 | 2 years |
| | 3,618,720 | | | |

* Weighted average

AFTER REORGANISATION

Shares are issued at a discount of 20% of market price, on terms permitted by the Schemes in accordance with section DF7 of the New Zealand Income Tax Act 1994, with no interest being charged on the loans. The qualifying period between grant and vesting date is 3 years. Dividends paid during the qualifying period on shares allocated to employees under the Scheme are paid to the employees. Voting rights on the shares are exercisable by the Trustees under the Schemes.

129,811 Fisher & Paykel Healthcare shares (2003 131,251) are held by the Schemes, being 0.1% (2003 0.1%) of the Company's issued and paid up capital. As at 31 March 2004, all shares were allocated to employees or executives, except for 12,053 (2003 4,934). 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 the Company 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 repurchased shares are held by the Trustees for allocation to future Schemes. Trustees of the Employee Share Purchase Schemes are appointed by the Company.

Information relating to Fisher & Paykel Healthcare shares issued under the Schemes after reorganisation is as follows:

| | 2004 PRICE* $ | 2004 NUMBER OF SHARES | 2003 PRICE* $ | 2003 NUMBER OF SHARES |
|---|---|---|---|---|
| As at beginning of the year | 7.88 | 126,317 | 8.52 | 61,926 |
| Granted during the year | - | - | 7.36 | 69,865 |
| Vested during the year | 8.01 | (1,440) | - | - |
| Lapsed due to resignation | 8.05 | (7,119) | 8.52 | (5,474) |
| As at end of the year | 7.86 | 117,758 | 7.88 | 126,317 |

| | NON-VESTED SHARES OUTSTANDING | PRICE RANGE $ | PRICE* $ | REMAINING PERIOD TO VESTING |
|---|---|---|---|---|
| Pre 31 March 2002 | 51,358 | 8.52 | 8.52 | 1 year |
| 1 April 2002 – 31 March 2003 | 66,400 | 7.35 - 7.44 | 7.36 | 2 years |
| | 117,758 | | | |

* Weighted average

Options are granted to selected employees pursuant to the Share Option Plans and become exercisable in three equal annual instalments commencing no earlier than the second anniversary 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 Company's outstanding ordinary shares. On leaving employment due to death, serious illness, accident, permanent disablement, redundancy or other circumstances as determined by the Company's Board, the employee or, if applicable, the employee's executor, will have one month in respect of the 2001 plan, and three months in respect of the 2003 plan, to exercise all outstanding options. On a termination of employment for any other reason all outstanding vested and unvested options will lapse. As at 31 March 2004 options had been granted to 134 employees (2003 137). Options granted to employees have no voting rights until they have been exercised and ordinary shares have been issued.

In August 2003 the Company granted 70,000 options (2003 899,900 options) to employees to complete the issue of options under the March 2003 plan. The Company has not recognised any compensatory expense in the Statement of Financial Performance. However the fair value of these options is estimated as $55,000 (2003 $713,000) on the date of allocation using the Black Scholes valuation model using the following assumptions:

| | |
|---|---|
| Risk free interest rate | 5.45% |
| Expected dividend yield | 5.00% |
| Expected life (years) | 5 |
| Expected/historical share price volitility | 18.00% |

Information relating to Fisher & Paykel Healthcare share options issued under the Plans is as follows:

| | 2004 EXERCISE PRICE* $ | 2004 NUMBER OF SHARE OPTIONS | 2003 EXERCISE PRICE* $ | 2003 NUMBER OF SHARE OPTIONS |
|---|---|---|---|---|
| As at beginning of the year | 10.78 | 2,408,900 | 10.65 | 1,522,500 |
| Granted during the year | 11.00 | 70,000 | 11.00 | 899,900 |
| Exercised during the year | 10.65 | (667) | - | - |
| Lapsed due to resignation | 10.82 | (63,033) | 10.65 | (13,500) |
| As at end of the year | 10.79 | 2,415,200 | 10.78 | 2,408,900 |

| Period granted or purchased | SHARE OPTIONS OUTSTANDING | PRICE RANGE $ | EXERCISE PRICE $ | REMAINING PERIOD TO VESTING |
|---|---|---|---|---|
| Pre 31 March 2002 | 1,476,000 | 10.65 | 10.65 | 0 to 3 years |
| 1 April 2002 – 31 March 2003 | 869,200 | 11.00 | 11.00 | 1 to 4 years |
| 1 April 2003 – 31 March 2004 | 70,000 | 11.00 | 11.00 | 1 to 4 years |
| | 2,415,200 | | | |

* Weighted average

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | |
|---|---|---|
| NOTE 10 | | INVESTMENTS IN SUBSIDIARIES |
| 73,995 | 79,414 | Shares in subsidiary companies |

The Parent's investment in subsidiaries comprises shares at net asset value. The assets and liabilities attributed to Fisher & Paykel Healthcare Corporation Limited are owned by the following subsidiaries:

| PRINCIPAL SUBSIDIARIES | COUNTRY OF INCORPORATION | INTEREST HELD BY GROUP 2004 | 2003 | PRINCIPAL ACTIVITIES |
|---|---|---|---|---|
| * Fisher & Paykel Healthcare Limited | NZ | 100% | 100% | Manufacture & Distribution of Healthcare Products |
| Fisher & Paykel Healthcare Limited | UK | 100% | 100% | Distribution of Healthcare Products |
| * Fisher & Paykel Healthcare Pty Limited | Australia | 100% | 100% | Distribution of Healthcare Products |
| Fisher & Paykel Healthcare Inc. | USA | 100% | 100% | Distribution of Healthcare Products |
| Fisher & Paykel Healthcare SAS | France | 100% | 100% | Distribution of Healthcare Products |
| Fisher & Paykel Healthcare GmbH & Co KG | Germany | 100% | 100% | Distribution of Healthcare Products |
| Fisher & Paykel Holdings Inc. | USA | 100% | 100% | Non Trading Holding Company |
| Fisher & Paykel Holdings GmbH | Germany | 100% | 100% | Non Trading Holding Company |
| * Fisher & Paykel Healthcare Properties Limited | NZ | 100% | 100% | Property Owning Company |

All subsidiaries have a balance date of 31 March.

* Fisher & Paykel Healthcare Corporation Limited together with those above companies marked with an asterisk are the companies in the Negative Pledge Agreement (refer note 15).

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 11 | | GOODWILL ON CONSOLIDATION | | |
| | | Goodwill at beginning of the year | 3,853 | 3,853 |
| | | Accumulated amortisation at beginning of the year | (1,668) | (1,283) |
| | | Unamortised balance at beginning of the year | 2,185 | 2,570 |
| | | Current year amortisation | (385) | (385) |
| | | Unamortised balance at end of the year | 1,800 | 2,185 |
| | | Comprising: | | |
| | | Goodwill | 3,853 | 3,853 |
| | | Accumulated amortisation | (2,053) | (1,668) |
| | | | 1,800 | 2,185 |
| NOTE 12 | | DEFERRED TAXATION | | |
| 56 | 56 | Balance at beginning of the year | 7,755 | 3,129 |
| - | 85 | Current year timing differences | 14,079 | 4,883 |
| | | Other movements | (8,129) | (257) |
| 56 | 141 | Balance at end of the year | 13,705 | 7,755 |

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 13 | | BANK OVERDRAFTS | | |
| | | Bank overdrafts | 6,326 | 1,106 |

Bank overdrafts in foreign currencies total:
AUD 0.540 million (2003 AUD nil)
GBP 0.149 million (2003 GBP 0.082 million)
EUR 2.862 million (2003 EUR 0.446 million)

Bank overdrafts come under the Negative Pledge Agreement as set out in note 15.

| UNUSED LINES OF CREDIT | 2004 NZ$000 | 2003 NZ$000 |
|---|---|---|
| Bank overdraft facilities | 3,988 | 35,014 |

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 14 | | PROVISIONS | | |
| | | CURRENT | | |
| | | Warranty provision | | |
| | | Balance at beginning of the year | 898 | 575 |
| | | Current year provision | 895 | 1,100 |
| | | Warranty expenses incurred | (1,047) | (777) |
| | | Balance at end of the year | 746 | 898 |
| | | TERM | | |
| | | Warranty provision | | |
| | | Balance at beginning of year | 379 | - |
| | | Current year provision | 29 | 379 |
| | | Warranty expenses incurred | | |
| | | Balance at end of the year | 408 | 379 |
| NOTE 15 | | BORROWINGS | | |
| | | Borrowing facilities due for repayment: | | |
| | | Current | - | 2,000 |
| | | One to two years | 1,850 | - |
| | | Two to three years | | |
| | | Term | 1,850 | - |

These borrowings have been aged in accordance with the repayment terms. All borrowings are drawn down by way of short term bills at interest rates current at draw down date (weighted average 4.1%, 2003 5.6%).

Borrowings in foreign currencies total EURO 1.0 million (2003 EURO 1.0 million).

Negative Pledge Agreements have been executed with certain of the Group's bankers. Major trading companies operating under these Negative Pledge Agreements together with the parent company are listed in note 10. 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) the debt cover ratio for each of the Group and Guaranteeing Group (refer note 10) shall not exceed 3 times;
(b) the interest cover ratio for the Group shall not be less than 3 times;
(c) the net tangible assets of the Group shall not be less than $100 million; and
(d) the total tangible assets of the Guaranteeing Group shall constitute at least 80% of the total tangible assets of the Group.

| | | UNUSED LINES OF CREDIT | 2004 NZ$000 | 2003 NZ$000 |
|---|---|---|---|---|
| | | Borrowings | - | 10,840 |

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 16 | | OTHER LIABILITIES | | |
| | | CURRENT | | |
| | | Employee entitlements | 5,605 | 4,587 |
| | | Unrealised loss on foreign currency instruments | 181 | 2,535 |
| | | Foreign currency option premium liability | - | 7,942 |
| 343 | 317 | Other creditors and accruals | 4,373 | 5,050 |
| 343 | 317 | | 10,159 | 20,114 |
| | | TERM | | |
| | | Unrealised loss on foreign currency instruments | - | 620 |
| 170 | 257 | Other creditors | 257 | 170 |
| 170 | 257 | | 257 | 790 |

## NOTE 17 SHAREHOLDERS' EQUITY

102,256,959 (2003 102,436,799) ordinary shares issued and paid up. All shareholders rank equally with one vote attaching to each fully paid ordinary share.

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| 116,564 | 131,014 | Shareholders' equity before reserves brought forward | 194,838 | 170,224 |
| 814 | 82 | Issue of share capital (i) | 82 | 814 |
| 62,740 | 47,349 | Profit for the year | 54,699 | 72,904 |
| 27 | 2 | Increase in equity from disposition of unallocated shares | 2 | 27 |
| - | (2,201) | Repurchase of share capital (ii) | (2,201) | - |
| | | Dividends: (iii) | | |
| (25,587) | (27,658) | Final 2003 (2002) | (27,658) | (25,587) |
| (23,544) | (24,586) | Interim 2004 (2003) | (24,586) | (23,544) |
| 131,014 | 124,002 | Shareholders' equity before reserves carried forward | 195,176 | 194,838 |
| 55,319 | 61,803 | Revaluation reserve brought forward | | |
| 6,484 | 5,420 | Revaluation of subsidiaries | | |
| | | Currency translation reserve brought forward | (2,021) | 1,659 |
| | | Movement for the year | (1,930) | (3,680) |
| 61,803 | 67,223 | Total reserves | (3,951) | (2,021) |
| 192,817 | 191,225 | Total shareholders' equity | 191,225 | 192,817 |

(i) 7,210 (2003 101,716) shares issued under the Share Purchase Schemes and 667 (2003 nil) shares issued under the Employee Share Option Plan (refer note 9) upon exercise of previously granted share options in the year ended 31 March 2004.
(ii) 187,717 shares were repurchased on-market and cancelled under the Company's on-market buy-back programme as announced on 17 March 2004.
(iii) All dividends paid were fully imputed. Supplementary dividends of $3,838,000 were paid (2003 $3,697,000).

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 18 | | CASH FLOW RECONCILIATION | | |
| | | RECONCILIATION OF PROFIT TO CASH FLOWS FROM OPERATING ACTIVITIES | | |
| 62,740 | 47,349 | Profit after taxation | 54,699 | 72,904 |
| | | Add (deduct) non-cash items: | | |
| | | Depreciation and writedown of fixed assets to recoverable amount | 7,576 | 7,619 |
| | | Amortisation of patents | 419 | 444 |
| | | Amortisation of goodwill | 385 | 385 |
| 159 | 51 | Accrued interest income | 51 | 159 |
| | | Movement in provisions | (123) | 702 |
| - | (85) | Movement in deferred tax | (5,950) | (4,626) |
| | | Movement in working capital | | |
| (15) | 214 | Payables and accruals | (4,037) | 9,370 |
| 407 | (5) | Debtors and prepayments | (2,808) | (3,996) |
| | | Inventory | (841) | (1,736) |
| 1,308 | (3,649) | Provision for taxation net of supplementary dividend paid | 7,081 | 3,000 |
| (1,089) | 4,202 | Intercompany advances in relation to operating cashflows | | |
| | | Movement in unrealised revaluations of foreign currency instruments | 6,963 | (32,785) |
| | | Foreign currency exchange translation | (3,238) | (5,489) |
| 63,510 | 48,077 | Net cash flow from operations | 60,177 | 45,951 |
| NOTE 19 | | IMPUTATION CREDIT ACCOUNTS | | |
| 60 | 6,155 | Balance brought forward | | |
| 26,500 | 21,500 | Imputation credits attached to dividends received | | |
| (44) | - | Tax paid | | |
| (20,502) | (21,894) | Imputation credits attached to dividends paid to shareholders | | |
| 141 | (92) | Other movements | | |
| 6,155 | 5,669 | Balance carried forward | | |
| | | Imputation credits directly and indirectly available to shareholders as at 31 March are: | | |
| | | Parent | 5,669 | 6,155 |
| | | Subsidiaries | 3,000 | 5,000 |
| | | Balance carried forward | 8,669 | 11,155 |
| NOTE 20 | | CONTINGENT LIABILITIES | | |
| | | Contingent liabilities | | |

Periodically we are a party to litigation including product liability and patent claims. To date such claims have been settled for relatively small monetary amounts, which have been expensed or covered by our insurance. We are unaware of the existence of any claim that would have a material impact on the operations of the Company.

| PARENT 2003 NZ$000 | PARENT 2004 NZ$000 | | CONSOLIDATED 2004 NZ$000 | CONSOLIDATED 2003 NZ$000 |
|---|---|---|---|---|
| NOTE 21 | | COMMITMENTS | | |
| | | Capital expenditure commitments as at 31 March | | |
| | | Within one year | 849 | 679 |
| | | Total | 849 | 679 |
| | | Lease commitments under non-cancellable operating leases: | | |
| | | Within one year | 2,274 | 2,325 |
| | | Between one and two years | 1,462 | 1,719 |
| | | Between two and three years | 1,149 | 901 |
| | | Between three and four years | 177 | 362 |
| | | Between four and five years | - | 242 |
| | | Over five years | | |

Operating lease commitments relate mainly to occupancy leasing of buildings.

## NOTE 22 CURRENCY

For the purpose of translating assets and liabilities of foreign subsidiaries the following conversion rates have been applied as at 31 March:

| | | CONSOLIDATED 2004 | CONSOLIDATED 2003 |
|---|---|---|---|
| NZ$1.00 = | USD | 0.6610 | 0.5535 |
| | AUD | 0.8728 | 0.9171 |
| | GBP | 0.3605 | 0.3509 |
| | EUR | 0.5406 | 0.5114 |

## NOTE 23 RELATED PARTY TRANSACTIONS

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

In connection with the reorganisation of Fisher & Paykel Industries Limited, on 23 August 2001 Fisher & Paykel Healthcare Corporation Limited (FPH) entered into a separation arrangement agreement with Fisher & Paykel Appliances Holdings Limited (FPA), which would own slightly less than 20% of the ordinary shares of FPH following the reorganisation. The separation arrangement agreement provided, among other things, that:

(a) any asset or liability held by FPH after the effective date of the reorganisation that is properly attributable to FPA, other than the borrowings FPH agreed to assume as part of the reorganisation or any asset or liability held by FPA or its subsidiaries that is properly attributable to FPH, is to be transferred and assigned or novated to FPA or FPH, 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, FPA or FPH, as appropriate;

(b) assets or liabilities for which no proper attribution can be determined will be attributed to each of FPA and FPH pro rata, in proportion to the respective values attributed to FPA and FPH as of the date of the separation arrangement agreement, unless both agree to a different allocation;

(c) FPH and FPA have agreed to ongoing sharing and co-operation arrangements concerning matters including the use of the name "Fisher & Paykel", land owned by FPH to which FPA requires limited access, joint procurement, including product liability insurance arrangements, the sharing of technological developments in prescribed circumstances, the use of domain names "fisherpaykel.com" and "fisher&paykel.com", FPH continuing to administer loans under existing employee share schemes, two patents owned by FPA that FPH may use in its business, the retention of records and access to corporate information;

(d) FPH and FPA will use best endeavours to distinguish the respective businesses from each other; and

(e) FPH will indemnify FPA and its subsidiaries for all losses, damages, liabilities, claims, costs and expenses that may be incurred by it and any of its subsidiaries after the effective date of the reorganisation relating to the healthcare business as carried on by Fisher & Paykel Industries prior to the effective date of the reorganisation and by FPH after the effective date of the reorganisation, and FPA will similarly indemnify FPH and its subsidiaries in relation to the operation of the appliances and finance businesses.

Any claims made against FPH that are properly attributable, in accordance with the separation arrangement agreement, to either the appliances or finance business would require FPH to exercise its rights under the separation arrangement agreement to obtain payment or indemnification from FPA. FPH is exposed to the risk that, in these circumstances, FPA cannot, or will not, make the required payment or indemnify FPH.

No claims have been made against FPH in relation to the separation arrangement agreement.

On 20 February 2004 Fisher & Paykel Appliances Holdings Limited disposed of its 19.34% shareholding in the Company by way of an underwritten accelerated bookbuild. As part of the sale arrangements, FPA agreed to provide a customary indemnity to FPH for any matters arising out of the sale. The indemnity given by FPA to FPH was not limited.

## NOTE 24 FINANCIAL INSTRUMENTS

### MANAGEMENT POLICIES

Through its importing and exporting activities the Group 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. The Company enters into foreign currency option contracts and forward foreign currency contracts in managing its foreign exchange risk.

The purpose of the Company's foreign currency hedging activities is to protect the Company from exchange rate volatility with respect to New Zealand dollar net cash movements resulting from the sales of products in foreign currency to foreign customers, and the purchase of raw materials in foreign currency from foreign and domestic suppliers. The Company enters into foreign currency option contracts and forward foreign currency contracts to hedge anticipated net sales/costs originating in New Zealand and denominated principally in US dollars, Euros, British pounds, and Australian dollars.

The terms of the foreign currency option contracts and forward foreign currency contracts generally do not exceed three years, however the foreign currency option contracts can be up to five years.

As at 1 April 2001 the Company adopted Statement of Financial Accounting Standards No 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended, which standardises the accounting for derivative instruments. The Company's hedging contracts were not designated as accounting hedges under SFAS 133 because of the restrictive definitions and therefore were marked to market with the resulting gains and losses being recognised in earnings in the period of change.

Unrealised gains or losses were recognised as incurred on the Statement of Financial Position as either other assets, within debtors and prepayments, or liabilities and were recorded as gains or losses on the Statement of Financial Performance. Unrealised gains and losses on currency derivatives were determined based on dealer quoted prices.

As at 6 November 2002 the Company designated its hedging contracts and options as accounting hedges under Statement of Standard Accounting Practice No 21, "Accounting for the Effects of Changes in Foreign Currency Exchange Rates" (SSAP 21). As a result of this change in policy, the mark to market fair value recorded at 6 November 2002 under SFAS 133 is retained on the Statement of Financial Position and will be offset against the gain/loss on settlement of the contracts. Movements in the mark to market fair values subsequent to 6 November 2002 are deferred and will be reflected in the Statement of Financial Performance when the anticipated transactions occur. The foreign currency exchange rates used in the mark to market adjustment as at 6 November 2002, USD 0.4944, AUD 0.8816, GBP 0.3174, EUR 0.4963, have become the effective hedge rates for the foreign currency option contracts and forward foreign currency contracts in place on this date.

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

Management of foreign currency and interest rate risk is regularly reported to the Board of Directors.

FAIR VALUE

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

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | **CARRYING AMOUNT NZ$000** | **FAIR VALUE NZ$000** | CARRYING AMOUNT NZ$000 | FAIR VALUE NZ$000 |
| Cash at bank | 30,578 | 30,578 | 13,336 | 13,336 |
| Short-term investments | 17,000 | 17,043 | 35,000 | 35,310 |
| Debtors | 33,768 | 33,768 | 30,050 | 30,050 |
| Employee share ownership plans loans | 1,250 | 1,128 | 3,422 | 2,931 |
| Bank overdrafts | (6,326) | (6,326) | (1,106) | (1,106) |
| Borrowings | (1,850) | (1,850) | (2,000) | (2,000) |
| Creditors | (10,810) | (10,810) | (8,677) | (8,677) |
| Foreign currency forward exchange contracts | 13,024 | 74,992 | 14,620 | 39,037 |
| Foreign currency option contracts | 3,350 | 14,719 | 8,718 | 28,556 |
| Interest rate swaps | - | (42) | - | (34) |

Estimated fair values of the Parent Company's financial assets and liabilities as at 31 March are as follows:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | **CARRYING AMOUNT NZ$000** | **FAIR VALUE NZ$000** | CARRYING AMOUNT NZ$000 | FAIR VALUE NZ$000 |
| Cash at bank | 25,037 | 25,037 | 9,574 | 9,574 |
| Short-term investments | 17,000 | 17,043 | 35,000 | 35,310 |
| Intergroup advances | 65,847 | 65,847 | 68,249 | 68,249 |
| Employee share ownership plans loans | 901 | 829 | 2,908 | 2,525 |
| Creditors | (317) | (317) | (343) | (343) |

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

CASH AT BANK, DEBTORS, CREDITORS, BANK OVERDRAFTS AND INTERGROUP ADVANCES

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

EMPLOYEE SHARE OWNERSHIP PLANS LOANS

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

BORROWINGS

Fair value is estimated based on current market interest rates available to the Group for debt of similar maturities.

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS AND OPTION CONTRACTS

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

INTEREST RATE SWAPS

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

OFF BALANCE SHEET RISK

The Group has entered into forward foreign currency exchange contracts and foreign currency option contracts 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 forward exchange and option contracts amounts outstanding was as follows:

| | **2004 NZ$000** | 2003 NZ$000 |
|---|---|---|
| Purchase commitments forward exchange contracts | | |
| Sale commitments forward exchange contracts | 280,236 | 254,387 |
| Put option contracts purchased | 49,034 | 183,453 |
| Call option contracts sold | | |

The Group has entered into interest rate swaps to manage its exposure to fluctuations in floating interest rates. These financial instruments are subject to the risk that interest rates may change subsequent to implementation.

All of the interest rate swaps as at 31 March were to hedge short-term investments. Notional principal or contract amounts outstanding were as follows:

| | **2004 NZ$000** | 2003 NZ$000 |
|---|---|---|
| Interest rate swaps | 5,000 | 18,000 |

CREDIT RISK

Forward foreign currency exchange contracts, foreign currency option contracts and interest rate swaps have been entered into with trading banks. The Group's exposure to credit risk from these financial instruments is limited because it does not expect nonperformance of the obligations contained therein due to the credit rating of the financial institutions concerned. The Group does not require collateral or other security to support financial instruments.

In the normal course of business the Group incurs credit risk with trade receivables. The Group 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 the Group's revenue: 2004 25.7% (2003 29.2%).

RECEIVABLE CONCENTRATION

The five largest customers have been the following proportion of the Group's debtors: 2004 21.8% (2003 31.2%).

## NOTE 25 EMPLOYEE REMUNERATION

Fisher & Paykel Healthcare operates in a number of countries where remuneration market levels differ widely. During the year a number of employees or former employees, not being directors of Fisher & Paykel Healthcare Corporation Limited, received remuneration and the value of other benefits that exceeded NZ$100,000 as follows:

| REMUNERATION $ | $ | NUMBER OF EMPLOYEES 2004 | 2003 | REMUNERATION $ | $ | NUMBER OF EMPLOYEES 2004 | 2003 |
|---|---|---|---|---|---|---|---|
| 100,000 - | 110,000 | 19 | 10 | 220,001 - | 230,000 | 1 | 4 |
| 110,001 - | 120,000 | 15 | 16 | 230,001 - | 240,000 | 3 | 1 |
| 120,001 - | 130,000 | 9 | 11 | 240,001 - | 250,000 | - | 1 |
| 130,001 - | 140,000 | 8 | 9 | 250,001 - | 260,000 | - | 1 |
| 140,001 - | 150,000 | 6 | 10 | 260,001 - | 270,000 | - | 2 |
| 150,001 - | 160,000 | 9 | 6 | 270,001 - | 280,000 | 1 | - |
| 160,001 - | 170,000 | 9 | - | 280,001 - | 290,000 | 1 | - |
| 170,001 - | 180,000 | 7 | 3 | 290,001 - | 300,000 | - | 3 |
| 180,001 - | 190,000 | 4 | 1 | 310,001 - | 320,000 | - | 2 |
| 190,001 - | 200,000 | 1 | 8 | 380,001 - | 390,000 | 2 | - |
| 200,001 - | 210,000 | 2 | 9 | 410,001 - | 420,000 | 1 | - |
| 210,001 - | 220,000 | 2 | 4 | 460,001 - | 470,000 | - | 1 |

## NOTE 26 SIGNIFICANT EVENTS AFTER BALANCE DATE

There have been no events occurring after balance date which would materially affect the accuracy of these financial statements.

# Five Year Financial Summary – Continuing Operations (NZ$)

FOR THE YEARS ENDED 31 MARCH

| | **2004 NZ$000** | 2003 NZ$000 | 2002 NZ$000 (EXCEPT AS OTHERWISE STATED) | 2001 NZ$000 | 2000 NZ$000 |
|---|---|---|---|---|---|
| FINANCIAL PERFORMANCE | | | | | |
| Operating revenue | 214,865 | 208,420 | 214,596 | 193,090 | 144,187 |
| Operating profit before abnormal items | 79,015 | 73,885 | 81,902 | 79,825 | 50,080 |
| Abnormal items | - | - | (1,092) | - | - |
| Operating profit | 79,015 | 73,885 | 80,810 | 79,825 | 50,080 |
| Net interest income (expense) | 1,920 | 2,997 | (267) | (2,163) | (1,230) |
| Foreign exchange gain (loss) | - | 34,326 | 13,313 | (57,796) | 1,339 |
| Profit before taxation | 80,935 | 111,208 | 93,856 | 19,866 | 50,189 |
| Taxation | (26,236) | (38,304) | (31,532) | (8,117) | (17,777) |
| Profit after taxation | 54,699 | 72,904 | 62,324 | 11,749 | 32,412 |
| Operating profit percentage | 36.8% | 35.5% | 37.7% | 41.3% | 34.7% |
| Operating revenue by region: | | | | | |
| North America | 93,610 | 101,511 | 104,084 | 86,134 | 56,681 |
| Europe | 64,469 | 58,304 | 59,918 | 54,132 | 41,021 |
| Asia Pacific | 47,959 | 41,264 | 43,113 | 44,888 | 41,116 |
| Other | 8,827 | 7,341 | 7,481 | 7,936 | 5,369 |
| Total | 214,865 | 208,420 | 214,596 | 193,090 | 144,187 |
| Operating revenue by product group: | | | | | |
| Respiratory humidification products | 110,942 | 102,576 | 109,318 | 102,639 | 78,144 |
| OSA products | 79,687 | 84,893 | 79,046 | 63,304 | 38,215 |
| Patient warming and neonatal care products | 15,849 | 12,157 | 13,754 | 10,352 | 6,260 |
| Core products subtotal | 206,478 | 199,626 | 202,118 | 176,295 | 122,619 |
| Mobility products | - | - | - | 1,039 | 4,508 |
| Distributed products | 8,387 | 8,794 | 12,478 | 15,756 | 17,060 |
| Total | 214,865 | 208,420 | 214,596 | 193,090 | 144,187 |
| FINANCIAL POSITION | | | | | |
| Tangible assets | 206,436 | 217,048 | 207,953 | 139,589 | 108,362 |
| Intangible assets | 17,737 | 11,704 | 7,380 | 7,326 | 3,340 |
| Total assets | 224,173 | 228,752 | 215,333 | 146,915 | 111,702 |
| Liabilities | (32,948) | (35,935) | (43,450) | (73,581) | (33,745) |
| Equity | 191,225 | 192,817 | 171,883 | 73,334 | 77,957 |
| Net tangible asset backing per share | $1.70 | $1.77 | $1.61 | $0.56 | $0.63 |
| Pre-tax return on total assets percentage | 36.1% | 48.6% | 43.6% | 13.5% | 44.9% |
| Pre-tax return on equity percentage | 42.3% | 57.7% | 54.6% | 27.1% | 64.4% |
| CASH FLOWS | | | | | |
| Net cash flow from operating activities | 60,177 | 45,951 | 35,985 | 46,002 | 39,371 |
| Net cash flow from (used in) investing activities | 8,247 | (50,959) | 286,254 | (12,688) | (30,156) |
| Net cash flow (used in) financing activities | (56,013) | (54,143) | (260,849) | (9,307) | (55,652) |
| SHARES OUTSTANDING | | | | | |
| Weighted basic average shares outstanding | 102,423,942 | 102,367,449 | 111,537,416 | 118,111,137 | 117,642,887 |
| Weighted diluted average shares outstanding | 104,822,628 | 103,960,399 | 112,173,791 | 118,111,137 | 117,642,887 |
| Basic shares outstanding at end of the year | 102,256,959 | 102,436,799 | 102,335,083 | 118,111,137 | 118,111,137 |

# Five Year Financial Summary – Continuing Operations (NZ$)

FOR THE YEARS ENDED 31 MARCH

| | **2004 NZ$000** | 2003 NZ$000 | 2002 NZ$000 (EXCEPT AS OTHERWISE STATED) | 2001 NZ$000 | 2000 NZ$000 |
|---|---|---|---|---|---|
| DIVIDENDS AND EARNINGS PER SHARE (NZD PER SHARE) | | | | | |
| Dividends paid: | | | | | |
| Final (i) | $0.27 | $0.25 | $0.18 | $0.15 | $0.09 |
| Interim | $0.24 | $0.23 | $0.20 | $0.12 | $0.10 |
| Total ordinary dividends | $0.51 | $0.48 | $0.38 | $0.27 | $0.19 |
| Special dividends | - | - | $0.25 | - | $0.15 |
| Basic earnings per share | $0.53 | $0.71 | $0.56 | $0.10 | $0.28 |
| Diluted earnings per share | $0.52 | $0.70 | $0.56 | $0.10 | $0.28 |
| (i) Final dividend relates to the prior financial year. | | | | | |
| PATENTS | | | | | |
| Number of United States patents | 45 | 32 | 29 | 26 | |
| Number of United States patent applications | 58 | 53 | 25 | 18 | |
| Number of non-United States patents | 52 | 48 | 46 | 48 | |
| Number of non-United States patent applications | 214 | 158 | 130 | 78 | |
| RESEARCH AND DEVELOPMENT | | | | | |
| Research and development expenditure | 14,115 | 11,535 | 10,264 | 8,661 | 6,680 |
| Percentage of operating revenue | 6.6% | 5.5% | 4.8% | 4.5% | 4.6% |
| CAPITAL EXPENDITURE | | | | | |
| Operational | 9,300 | 6,730 | 10,767 | 4,885 | 6,407 |
| Land and buildings | 236 | 9,730 | 2,443 | 7,491 | 24,317 |
| Total | 9,536 | 16,460 | 13,210 | 12,376 | 30,724 |
| Capital expenditure : depreciation ratio | 1.3 | 2.2 | 2.2 | 2.3 | 7.4 |
| NUMBER OF EMPLOYEES | | | | | |
| By function: | | | | | |
| Research and development | 150 | 130 | 120 | 120 | 86 |
| Manufacturing | 354 | 288 | 265 | 211 | 161 |
| Sales, marketing and distribution | 256 | 220 | 207 | 188 | 174 |
| Management and administration | 140 | 129 | 124 | 101 | 104 |
| Total | 900 | 767 | 716 | 620 | 525 |
| By region: | | | | | |
| New Zealand | 690 | 586 | 547 | 476 | 390 |
| North America | 77 | 63 | 58 | 46 | 40 |
| Europe | 93 | 81 | 72 | 63 | 60 |
| Rest of World | 40 | 37 | 39 | 35 | 35 |
| Total | 900 | 767 | 716 | 620 | 525 |
| AVERAGE EXCHANGE RATES (NZ$1 = ) | | | | | |
| USD | 0.6146 | 0.4945 | 0.4159 | 0.4375 | 0.5172 |
| AUD | 0.8835 | 0.8776 | 0.8145 | 0.7892 | 0.8062 |
| GBP | 0.3609 | 0.3191 | 0.2903 | 0.2962 | 0.3216 |
| EUR | 0.5210 | 0.4966 | 0.4727 | 0.4820 | 0.5009 |

The above exchange rates were used to translate the financial statements of foreign subsidiaries.

# Five Year Financial Summary – Continuing Operations (US$)

FOR THE YEARS ENDED 31 MARCH

| | 2004 US$000 | 2003 US$000 | 2002 US$000 | 2001 US$000 | 2000 US$000 |
|---|---|---|---|---|---|
| | | (EXCEPT AS OTHERWISE STATED) | | | |
| FINANCIAL PERFORMANCE | | | | | |
| Operating revenue | 132,056 | 103,063 | 89,250 | 84,380 | 74,588 |
| Operating profit before abnormal items | 48,563 | 36,536 | 34,063 | 34,923 | 25,900 |
| Abnormal items | - | - | (454) | - | - |
| Operating profit | 48,563 | 36,536 | 33,609 | 34,923 | 25,900 |
| Net interest income (expense) | 1,180 | 1,483 | (111) | (946) | (636) |
| Foreign exchange gain (loss) | - | 16,975 | 6,870 | (26,619) | 693 |
| Profit before taxation | 49,743 | 54,994 | 40,368 | 7,358 | 25,957 |
| Taxation | (16,125) | (18,941) | (13,554) | (3,111) | (9,194) |
| Profit after taxation | 33,618 | 36,053 | 26,814 | 4,247 | 16,763 |
| Operating profit percentage | 36.8% | 35.5% | 37.7% | 41.4% | 34.7% |
| Operating revenue by region: | | | | | |
| North America | 57,722 | 50,071 | 43,281 | 37,926 | 29,366 |
| Europe | 39,594 | 28,938 | 24,934 | 23,662 | 21,230 |
| Asia Pacific | 29,294 | 20,402 | 17,923 | 19,450 | 21,267 |
| Other | 5,446 | 3,652 | 3,112 | 3,342 | 2,725 |
| Total | 132,056 | 103,063 | 89,250 | 84,380 | 74,588 |
| Operating revenue by product group: | | | | | |
| Respiratory humidification products | 68,068 | 50,752 | 45,454 | 44,652 | 40,253 |
| OSA products | 49,055 | 41,999 | 32,868 | 27,763 | 19,795 |
| Patient warming and neonatal care products | 9,796 | 6,004 | 5,743 | 4,442 | 3,250 |
| Core products subtotal | 126,919 | 98,755 | 84,065 | 76,857 | 63,298 |
| Mobility products | - | - | - | 455 | 2,359 |
| Distributed products | 5,137 | 4,308 | 5,185 | 7,068 | 8,931 |
| Total | 132,056 | 103,063 | 89,250 | 84,380 | 74,588 |
| FINANCIAL POSITION | | | | | |
| Tangible assets | 136,454 | 120,135 | 91,665 | 56,254 | 53,748 |
| Intangible assets | 11,724 | 6,477 | 3,253 | 2,952 | 1,657 |
| Total assets | 148,178 | 126,612 | 94,918 | 59,206 | 55,405 |
| Liabilities | (21,778) | (19,888) | (19,152) | (29,653) | (16,738) |
| Equity | 126,400 | 106,724 | 75,766 | 29,553 | 38,667 |
| Net tangible asset backing per share | $1.12 | $0.98 | $0.71 | $0.23 | $0.31 |
| Pre-tax return on total assets percentage | 33.6% | 43.4% | 42.5% | 12.4% | 46.8% |
| Pre-tax return on equity percentage | 39.4% | 51.5% | 53.3% | 24.9% | 67.1% |
| CASH FLOWS | | | | | |
| Net cash flow from operating activities | 36,670 | 22,212 | 14,959 | 20,125 | 20,363 |
| Net cash flow from (used in) investing activities | 5,068 | (25,199) | 119,053 | (5,552) | (15,596) |
| Net cash flow (used in) financing activities | (34,109) | (25,786) | (108,487) | (4,072) | (28,783) |
| SHARES OUTSTANDING | | | | | |
| Weighted basic average shares outstanding | 102,423,942 | 102,367,449 | 111,537,416 | 118,111,137 | 117,642,887 |
| Weighted diluted average shares outstanding | 104,822,628 | 103,960,399 | 112,173,791 | 118,111,137 | 117,642,887 |
| Basic shares outstanding at end of the year | 102,256,959 | 102,436,799 | 102,335,083 | 118,111,137 | 118,111,137 |

# Five Year Financial Summary – Continuing Operations (US$)

FOR THE YEARS ENDED 31 MARCH

| | **2004 US$000** | 2003 US$000 | 2002 US$000 | 2001 US$000 | 2000 US$000 |
|---|---|---|---|---|---|
| | | | (EXCEPT AS OTHERWISE STATED) | | |
| DIVIDENDS AND EARNINGS PER SHARE (USD PER SHARE) | | | | | |
| Dividends paid: | | | | | |
| Final (i) | $0.15 | $0.13 | $0.10 | $0.08 | $0.08 |
| Interim | $0.16 | $0.11 | $0.08 | $0.05 | $0.05 |
| Total ordinary dividends | $0.31 | $0.24 | $0.18 | $0.13 | $0.13 |
| Special dividends | - | - | $0.10 | - | $0.08 |
| Basic earnings per share | $0.33 | $0.35 | $0.24 | $0.04 | $0.14 |
| Diluted earnings per share | $0.32 | $0.35 | $0.24 | $0.04 | $0.14 |
| (i) Final dividend relates to the prior financial year. | | | | | |
| PATENTS | | | | | |
| Number of United States patents | 45 | 32 | 29 | 26 | |
| Number of United States patent applications | 58 | 53 | 25 | 18 | |
| Number of non-United States patents | 52 | 48 | 46 | 48 | |
| Number of non-United States patent applications | 214 | 158 | 130 | 78 | |
| RESEARCH AND DEVELOPMENT | | | | | |
| Research and development expenditure | 8,675 | 5,704 | 4,269 | 3,789 | 3,455 |
| Percentage of operating revenue | 6.6% | 5.5% | 4.8% | 4.5% | 4.6% |
| CAPITAL EXPENDITURE | | | | | |
| Operational | 5,716 | 3,328 | 4,478 | 2,138 | 3,313 |
| Land and buildings | 145 | 4,811 | 1,016 | 3,277 | 12,577 |
| Total | 5,861 | 8,139 | 5,494 | 5,415 | 15,890 |
| Capital expenditure : depreciation ratio | 1.3 | 2.2 | 2.2 | 2.3 | 7.4 |
| NUMBER OF EMPLOYEES | | | | | |
| By function: | | | | | |
| Research and development | 150 | 130 | 120 | 120 | 86 |
| Manufacturing | 354 | 288 | 265 | 211 | 161 |
| Sales, marketing and distribution | 256 | 220 | 207 | 188 | 174 |
| Management and administration | 140 | 129 | 124 | 101 | 104 |
| Total | 900 | 767 | 716 | 620 | 525 |
| By region: | | | | | |
| New Zealand | 690 | 586 | 547 | 476 | 390 |
| North America | 77 | 63 | 58 | 46 | 40 |
| Europe | 93 | 81 | 72 | 63 | 60 |
| Rest of World | 40 | 37 | 39 | 35 | 35 |
| Total | 900 | 767 | 716 | 620 | 525 |
| AVERAGE EXCHANGE RATES (US$1 = ) | | | | | |
| NZD | 1.6271 | 2.0222 | 2.4044 | 2.2857 | 1.9335 |
| AUD | 1.4375 | 1.7747 | 1.9584 | 1.8039 | 1.5588 |
| GBP | 0.5872 | 0.6453 | 0.6980 | 0.6770 | 0.6218 |
| EUR | 0.8477 | 1.0042 | 1.1366 | 1.1017 | 0.9685 |
| The above exchange rates were used to translate the financial statements of foreign subsidiaries. | | | | | |

# Shareholder Information

| SIZE OF HOLDINGS | NUMBER OF HOLDERS | % | ORDINARY SHARES NUMBER OF SHARES | % |
|---|---|---|---|---|
| 1 - 100 | 720 | 6.63 | 32,128 | 0.03 |
| 101 - 1,000 | 6,201 | 57.09 | 3,133,449 | 3.07 |
| 1,001 - 5,000 | 3,358 | 30.91 | 7,055,931 | 6.92 |
| 5,001 - 10,000 | 323 | 2.97 | 2,181,646 | 2.14 |
| Over 10,000 | 261 | 2.40 | 89,548,809 | 87.84 |
| | 10,863 | 100.00 | 101,951,963 | 100.00 |

The details set out above were as at 28 May 2004.

As disclosed in note 9 of the Financial Statements there were 2,415,200 options on issue to employees as at 31 March 2004.

There are no other classes of equity security currently on issue.

There are 368 shareholders holding less than a marketable parcel, as defined by ASX listing rules, of the Company's ordinary shares, based on the market price as at 28 May 2004.

There are no restricted securities or securities subject to voluntary escrow on issue.

On 17 March 2004 the Company announced its intention to undertake an on-market share buy-back programme of up to $27.5 million. As at 28 May 2004 the Company had repurchased and cancelled 499,927 shares at a total cost of $6.0 million and an average cost per share of $11.99. The Company intends to complete the share buy-back programme in the 2005 financial year, depending on market conditions.

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (i.e., substantial holdings and takeovers).

Limitations on the acquisition of the securities imposed by the jurisdiction in which the Company is incorporated (New Zealand law) are:

(a) In general securities in the Company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

(b) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in the Company or the increase of an existing holding of 20% or more of the voting rights in the Company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the shares of the Company.

(c) The New Zealand Overseas Investment Act and Overseas Investment Regulations regulate certain investments in New Zealand by overseas persons. In general terms the consent of the New Zealand Overseas Investment Commission is likely to be required where an "overseas person" acquires shares in the Company that amount to more than 25% of the shares issued by the Company, or if the overseas person already holds 25% or more, the acquisition increases that holding.

(d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the Company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

SUBSTANTIAL SECURITY HOLDERS

| Pursuant to Section 26 of the Securities Markets Act 1988, the substantial security holders as at 28 May 2004 were as follows: | ORDINARY SHARES | % |
|---|---|---|
| AMP Capital Investors (NZ) Limited (notice dated 27 February 2004) | 7,093,965 | 6.96 |
| AXA Asia Pacific Holdings Limited (notice dated 12 March 2004) | 6,284,628 | 6.16 |

# Shareholder Information

PRINCIPAL SHAREHOLDERS

The names and holdings of the twenty largest registered shareholders as at 28 May 2004 were:

| HOLDER | ORDINARY SHARES | % |
|---|---|---|
| New Zealand Central Securities Depository Limited | 52,411,524 | 51.40 |
| Perpetual Trustee Company Limited | 4,999,509 | 4.90 |
| J P Morgan Nominees Australia Limited | 3,732,567 | 3.66 |
| National Nominees Limited | 3,597,378 | 3.52 |
| Cogent Nominees Pty Limited | 2,078,737 | 2.04 |
| Caledonia Investments Limited | 1,732,737 | 1.69 |
| Alfred Street Nominees Pty Limited | 1,483,263 | 1.45 |
| AMP Life Limited | 1,315,845 | 1.29 |
| Citicorp Nominees Pty Limited | 1,251,269 | 1.23 |
| John William Gilks & Colin James Maiden | 880,110 | 0.86 |
| Woolf Fisher Trust | 708,483 | 0.69 |
| Westpac Custodian Nominees Limited | 667,629 | 0.65 |
| Gurshon Fisher | 555,244 | 0.54 |
| Custodial Services Limited | 554,986 | 0.54 |
| Gurshon Fisher (Gus Fisher Family a/c) | 534,166 | 0.52 |
| G A Paykel, D M Paykel and K R Rushbrook | 526,587 | 0.51 |
| J Fisher, A J J Agar, G L Collinson and N S Robinson | 431,506 | 0.42 |
| Joyce Fisher | 411,118 | 0.40 |
| UBS Private Clients Australia Nominees Pty Limited | 392,768 | 0.38 |
| ANZ Nominees Limited | 350,678 | 0.34 |

New Zealand Central Securities Depository provides a custodial depository service to institutional shareholders and does not have a beneficial interest in these shares. Its major holders as at 28 May 2004 were:

| | |
|---|---|
| Accident Compensation Corporation | 3,811,387 |
| ANZ Nominees Limited | 2,256,481 |
| Asteron Life Limited | 1,254,200 |
| Citibank Nominees (New Zealand) Limited | 5,112,548 |
| Cogent Nominees Limited | 1,660,981 |
| Custody and Investment Nominees Limited | 1,791,518 |
| NZ Guardian Trust Investment Nominees Limited | 943,106 |
| National Nominees New Zealand Limited | 18,132,804 |
| Premier Nominees Limited - Armstrong Jones New Zealand Share Fund | 1,063,395 |
| Westpac Banking Corporation - Client Assets No 2 | 9,575,465 |

A number of these registered shareholders hold shares as nominees on behalf of other parties.

DIRECTORS' SHAREHOLDINGS

Directors held relevant interests in the following shares in the Company as at 31 March 2004:

| | | ORDINARY SHARES |
|---|---|---|
| A E Clarke | - beneficially owned | 7,000 |
| M G Daniell (i) | - beneficially owned | 31,740 |
| | - not beneficially owned | 120,661 |
| N T Evans | - beneficially owned | 4,584 |
| | - not beneficially owned | 708,483 |
| W L Gillanders | - beneficially owned | 102,883 |
| C J Maiden | - beneficially owned | 10,859 |
| | - not beneficially owned | 880,110 |
| P M Smith | - beneficially owned | 40,000 |
| G A Paykel | - beneficially owned | 554,527 |
| | - not beneficially owned | 153,709 |

(i) Mr Daniell has a beneficial interest in 250,000 options issued under the 2001 Share Option Plan, and 70,000 options issued under the 2003 Share Option Plan.

# Shareholder Information

SHARE DEALINGS BY DIRECTORS

In accordance with Section 148(2) of the Companies Act 1993 the Board has received disclosures from the Directors named below of acquisitions or dispositions of relevant interests in the company between 1 April 2003 and 31 March 2004.

Particulars of such disclosures are:

Messrs Gillanders and Paykel, as trustees of the company's Employee Share Purchase Scheme, disposed of shares pursuant to the Company's Employee Share Purchase Scheme.

Messrs Daniell and Paykel, as Directors of Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited, the trustee company of the Company's Employee Share Purchase Scheme, disposed of shares pursuant to the Company's Employee Share Purchase Scheme.

Mr Daniell was granted 70,000 options on 15 August 2003 under the 2003 Share Option Plan.

# Disclosure of Interests by Directors

In accordance with Section 140(2) of the Companies Act 1993, the Directors named below have made a general disclosure of interest, by a general notice disclosed to the Board and entered in the Company's interests register. General notices were given by these Directors which remain current at the end of the financial year:

**G A PAYKEL** is Chairman of:
Fisher & Paykel Appliances Holdings Limited
Panprint Limited
Milly Molly Holdings Ltd

and is a Director of:
Sport Drinks (NZ) Limited
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited
Fisher & Paykel Appliances Employee Share Purchase Trustee Limited
Sport Sunshine Limited
Howgate Holdings Limited
Lady Ruby Investments Limited
New Zealand 93 Limited
Stonex Systems Limited

and is a Trustee of:
Andsar Family Trust
Fisher & Paykel Employee Share Purchase Scheme
Maurice Paykel Charitable Trust (Inc)
Maurice & Phyllis Paykel Trust (Inc)
Phyllis Patricia Paykel Trust
a shareholder in:
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited – 100 ordinary shares jointly held with Mike Daniell

**C J MAIDEN** is Chairman of:
Marsh (NZ) Limited Advisory Group
Transpower New Zealand Limited
D B Breweries Limited

and is a Director of:
D B Breweries Limited and Subsidiaries
The New Zealand Refining Co Limited
Foodland Associated Limited

and is a Trustee of:
Fisher & Paykel Executive Share Purchase Scheme

**P M SMITH** is Chairman of:
The Lion Foundation
BrainZ Instruments Limited
Tru-Test Corporation Limited

and is a Director of:
Auckland International Airport Limited
Hauraki Private Equity No. 1 Fund
ING Property Trust Management Limited
Hauraki Private Equity No. 2 Fund

**W L GILLANDERS**
is Chairman of:
Auckland Packaging Limited

and is a Director of:
Fisher & Paykel Appliances Holdings Limited
Fisher & Paykel Trustee Limited
LRS Management Limited
Rangatira Limited

**N T EVANS** is a Director of:
Managers & Consultants Limited
Quark Technology Limited
Woolf Fisher Trust

and is a Trustee of:
Woolf Fisher Trust

**M G DANIELL** is a Director of:
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited

and is a Shareholder in:
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited – 100 ordinary shares jointly held with Gary Paykel

**A E CLARKE** is a Director of:
WMC Resources Limited
Woolworths Limited
Tridan Limited
Hexima Limited

## DIRECTORS' AND OFFICERS' INSURANCE AND INDEMNITY

The Group has arranged, as provided for under the Company's constitution, policies of Directors' and Officers' Liability Insurance which, with a Deed of Indemnity entered into with all Directors, ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines which may be imposed in respect of breaches of the law.

## USE OF COMPANY INFORMATION

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been available to them.

# Group Structure

*FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED OWNS:
*Fisher & Paykel Healthcare Limited
*Fisher & Paykel Healthcare Pty Limited (Australia)
*Fisher & Paykel Healthcare Properties Limited
Fisher & Paykel Healthcare Limited (UK)
Fisher & Paykel Holdings Inc. (USA)

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

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

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

*ALL COMPANIES ARE WHOLLY OWNED*
**COMPANIES OPERATING UNDER A NEGATIVE PLEDGE AGREEMENT*

## DIRECTORS' DETAILS

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

| | |
|---|---|
| Gary Paykel | Chairman, Non-Executive |
| Michael Daniell | Managing Director and Chief Executive Officer |
| Michael Smith | Deputy Chairman, Non-Executive, Independent |
| Prof. Adrienne Clarke | Non-Executive, Independent |
| Sir Colin Maiden | Non-Executive, Independent |
| Dr Nigel Evans | Non-Executive, Independent |
| Lindsay Gillanders | Non-Executive |

During the year to 31 March 2004:

At the Annual Meeting of Shareholders held on 7 August 2003 Sir Colin Maiden and Lindsay Gillanders retired by rotation in accordance with the Company's constitution, and were re-elected to the Board.

## EXECUTIVES' DETAILS

Michael Daniell, *Managing Director and Chief Executive Officer*

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

## DIRECTORY

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

15 Maurice Paykel Place, East Tamaki, Auckland, New Zealand
Telephone: +64-9-574 0100
Facsimile: +64-9-574 0158

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

Internet Address
www.fphcare.co.nz

Email Address
investor@fphcare.co.nz

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

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

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

Share Registry

In New Zealand
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna, Auckland

Postal Address
Private Bag 92119, Auckland 1020, New Zealand
Telephone: +64-9-488 8777
Facsimile: +64-9-488 8787
Internet address: www.computershare.co.nz
Email: enquiry@computershare.co.nz

In Australia
Computershare Investor Services Limited
Level 4, 60 Carrington Street, Sydney, NSW 2000

Postal Address
GPO Box 7045, Sydney, NSW 1115, Australia
Telephone: +61-2-8234 5000
Facsimile: +61-2-8234 5050
Internet address: www.computershare.com.au
Email: sydney.services@computershare.com.au

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

Incorporation
The Company was incorporated in Auckland, New Zealand.

Fisher & Paykel
HEALTHCARE