Fisher & Paykel HEALTHCARE

MORE PATIENTS. MORE PLACES.

Annual Report 2006








More Patients. More Places.

Fisher & Paykel Healthcare Corporation Limited has consistently achieved strong revenue growth in our three core product areas of respiratory humidification systems, devices for the treatment of obstructive sleep apnea (OSA) and products used in neonatal care.

This growth stems from our vision to generate increased value for our shareholders by designing, developing, manufacturing, marketing and selling healthcare devices worldwide which improve patient care and outcomes.

This year we have made considerable progress in our aim to serve a much broader range of patient groups beyond our traditional intensive care market, particularly in areas such as non-invasive ventilation, oxygen therapy and humidity therapy.

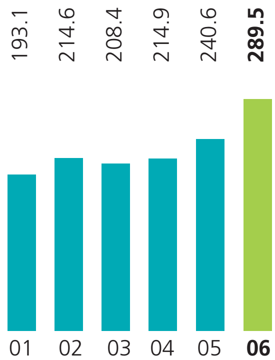
In this annual report, we describe how we are reaching more patients in more places and discuss how our core product groups continue to perform strongly, growing value for shareholders as well as improving patient care.

CONTENTS

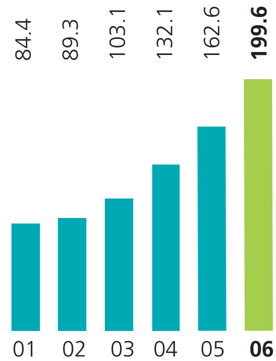
Results in brief

TRADING REVENUE*

NZ$ MILLIONS

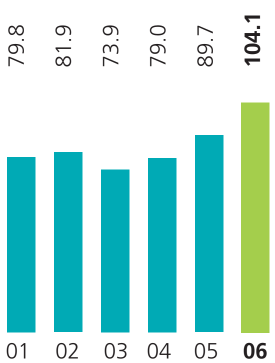


US$ MILLIONS

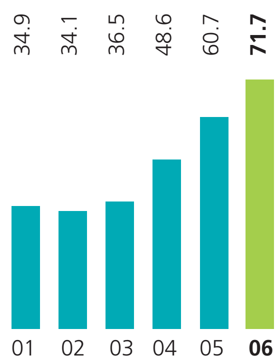


OPERATING PROFIT BEFORE ABNORMAL ITEMS*

NZ$ MILLIONS

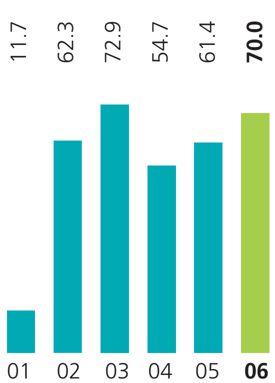


US$ MILLIONS

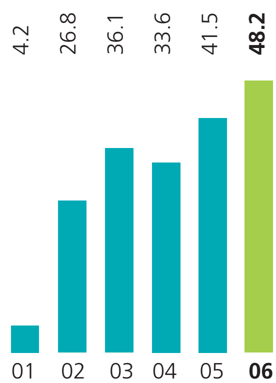


PROFIT AFTER TAXATION*

NZ$ MILLIONS



US$ MILLIONS



* FROM CONTINUING OPERATIONS

2006 Highlights

- **Record trading revenue of NZ$289.5 million**
- **23% growth in trading revenue to US$199.6 million**
- **16% growth in operating profit to a record NZ$104.1 million**
- **14% growth in profit after tax to NZ$70.0 million**
- **Operating margin of 35.9% for the year**
- **34% growth in OSA product group revenue to US$88.2 million**
- **14% growth in respiratory humidification product group revenue to US$90.0 million**
- **24% growth in neonatal care product group revenue to US$15.9 million**
- **Pre-tax return on average shareholders' equity of 53% in NZD**
- **Research and development investment of 6% of trading revenue**
- **Total dividend of NZD12.4 cents per share for the year, representing approximately 90% of full year after tax profit**

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 provide the best possible patient care and outcomes.

CUSTOMERS:
Our goal is to be recognised by our customers as a high quality, innovative and efficient supplier. We will 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 trusting relationship with each employee, providing for their welfare, wellbeing 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 trusting relationships, 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

Gary Paykel – CHAIRMAN

For the financial year ended 31 March 2006, new products continued to contribute to growth in our core product groups of respiratory humidification, obstructive sleep apnea and neonatal care. This progress was an important contributor to the record operating profit achieved of NZ$104.1 million.

Concurrently, we opened up new opportunities for growth by introducing products which can be used outside of the intensive care environment in hospitals, enabling us to contribute to improved care for more patients in more places.

Our trading revenue increased by 20% to NZ$289.5 million, while our operating profit increased by 16% over the prior year to NZ$104.1 million with an operating margin on trading revenue of 35.9%.

As an exporter, we earn a large proportion, approximately 65%, of our revenue in US dollars. In US dollar terms, trading revenue increased by 23% for the year to US$199.6 million and our operating profit increased by 18% to US$71.7 million compared with the prior year. Geographic contribution to revenues was North America 47%, Europe 29% and Asia Pacific and Other, 24%.

Profit after tax increased by 14% to NZ$70.0 million, compared with NZ$61.4 million for the prior year. This pleasing progress is reflected in the Directors' decision to increase our final dividend to NZD7.0 cents per share, carrying full imputation credit. Total dividends for the year, of NZD12.4 cents per share, are in line with our policy to distribute approximately 90% of our after tax profit to our shareholders.

As in prior years, each of our core product groups contributed to our sound performance.

Trading revenue from masks and flow generators grew 53% in our OSA product group, taking OSA trading revenue to US$88.2 million, up 34% on the prior year.

Respiratory humidification product group trading revenue increased by 14% to US$90.0 million, a result driven by strong growth in volumes of breathing circuits and respiratory humidifier controllers.

Trading revenue in our neonatal care product group rose 24% to US$15.9 million, another pleasing result.

Our trading revenue increased by 20% to NZ$289.5 million, while our operating profit increased by 16% over the prior year to NZ$104.1 million with an operating margin on trading revenue of 35.9%.

Increases in market share across all three product groups were important contributors to our revenue growth. Trading revenue also benefited from approximately NZ$13.1 million in currency hedging gains on export sales to third party distributors, with total operating revenue benefiting from a further NZ$34.9 million of hedging gains relating to sales made via foreign based subsidiaries.

Further analysis of our trading revenues illustrates the respective contribution made by each of our core product groups. Respiratory humidification sales represented 45% of trading revenue, while OSA accounted for 44%. Neonatal care represented 8% and distributed products represented 3%. Consumable products across all three product groups such as humidifier chambers, breathing circuits, masks and accessories, now account for 59% of trading revenue, up from 55% in the prior year.

Trading revenue from our core product groups, in US dollar terms, has grown at a compound annual rate of 21% over the past seven years as we have successfully introduced new products and the markets for these products have expanded.

Our products are sold in more than 90 international markets. As in previous years, we continue to invest in the expansion of our global sales network. Our experience confirms that the better our presence "on the ground" in each market, the better our ability to identify growth opportunities and form relationships which promote confidence in our company and its products that lead to increased sales. As a result, our selling, general and administrative (SG&A) expenses have increased to NZ$81.7 million, a rise of 21% on the prior year. Excluding the effect of currency translations, SG&A expenses increased by approximately 25%.

With new products being an important driver of our annual revenue and earnings growth, we remain very committed to investing in research and development (R&D). Our R&D expenses represented 6% of trading revenue, increasing to NZ$17.3 million compared to NZ$16.2 million in the prior year. This investment was spread across all of our core product groups, as we continued to develop our product portfolio.

Our cash flows remain strong, with NZ$96.5 million net cash generated from operating activities in the financial year, an increase of NZ$24.3 million over the prior year.

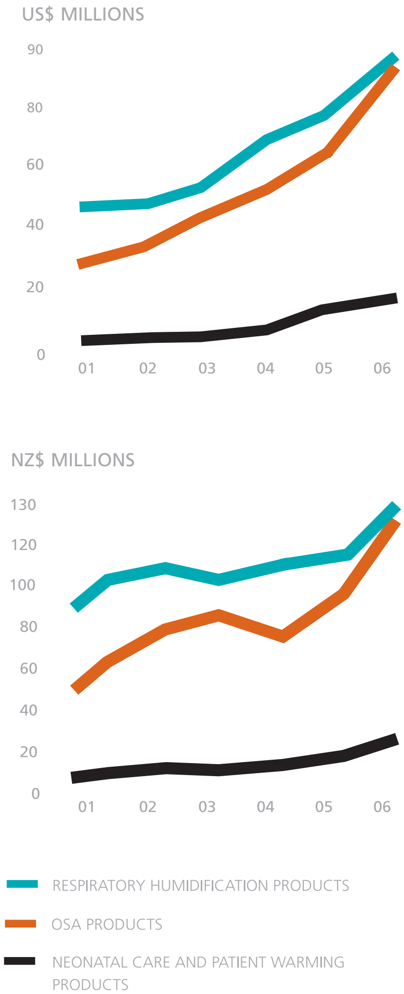
Capital expenditure of NZ$53.6 million included NZ$38.9 million in payments related to the construction of the second manufacturing, R&D and administrative facility on our Auckland site. The majority of other capital expenditures related to the purchase of production tooling and equipment, computer equipment and software and patents.

Net cash used in financing activities of NZ$50.7 million primarily related to payment of our interim and final dividends as well as the NZ$5.1 million return of capital to shareholders through our on-market share buy-back programme. In total 1,649,902 shares were purchased during the year.

Once again, the quality of our results and our expectation of future growth are a direct result of the calibre of our people. We thank them all for their contribution and their loyalty. Their experience, knowledge and commitment to only the very best in research, development, manufacturing, marketing, sales and administration makes a very real difference to our ability to grow our markets and the value we create for our shareholders. We also greatly value our relationships with our customers, distributors, suppliers and clinical partners and thank them all for their support.

Gary Paykel CNZM
Chairman

REVENUE BY PRODUCT GROUP



CEO's Review

Michael Daniell –
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

We have a consistent strategy to use our leading technology to broaden the range of products we offer and to expand the application of our devices to an increasing range of patient groups. Put simply, more devices to help improve care and outcomes for more patients in more places.

In the hospital, that means moving beyond our traditional intensive care ventilation environment with new products that can be used in non-invasive ventilation, oxygen therapy and humidity therapy. In homecare, we are addressing the rapidly growing OSA market with an increasing product range while also introducing new devices to assist in home ventilation and the treatment of chronic obstructive pulmonary disease (COPD).

Over the past year, we have made significant progress with this strategy. As growth has continued in our existing international markets, we have announced a number of new products which will assist development of those opportunities.

During the financial year under review, we achieved strongly increased sales volumes across our three core product groups, which resulted in our record trading revenue and record operating profit.

Obstructive Sleep Apnea (OSA)

Our OSA product group provides devices which are used to treat patients with obstructive sleep apnea, a disorder that disrupts breathing during sleep. In addition to causing excessive daytime fatigue, OSA is associated with cardiovascular disease and strokes and is directly linked to hypertension.

The OSA market continues to grow strongly. This year we expect that the annual value of the market for treatment devices and consumables will reach US$1.5 billion. As the market grows, we are continuing to grow our share, both in the very large US market and in other international markets. We offer an extensive range of

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Our heated humidifier systems improve patient care in the treatment of a variety of medical conditions which interfere with normal respiration.

flow generators and masks which deliver the continuous positive airway pressure (CPAP) therapy which is most commonly used to treat this disorder.

Our humidification technology and our extensive R&D activities have resulted in innovative products with important competitive advantages.

Revenue from our broad range of masks continued to grow very strongly. Most of our masks incorporate our patented FlexiFit™ and Glider™ technologies which help make them easy to fit and comfortable. These benefits are increasingly being recognized by our customers.

During the year, we completed the international introduction of our SleepStyle™ 600 series flow generator range which incorporates our proprietary ThermoSmart™ humidification technology. ThermoSmart™ has been well received by patients, with positive reports of both increased comfort and acceptance.

ThermoSmart™ warms the tube which delivers air to the mask and allows much higher levels of humidification which can reduce the symptoms caused by airway drying. Dr Georg Nilius of the University of Witten/Herdecke Germany has reported that the technology improves quality of sleep compared with conventional heated humidification.

Respiratory Humidification

Our heated humidifier systems improve 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 upper airways and reduces airway moisture loss and the occurrence of adverse side effects.

For the respiratory humidification product group, the 14% growth achieved in trading revenues to US$90.0 million was driven by ongoing market share gains by our MR850 and MR810 humidifier controllers.

Humidifier controller placements are, in turn, driving strong growth in both adult and neonatal breathing circuits, and breathing circuit accessories. The average value of humidifier and breathing system components we provide for each patient continues to increase.

An increasing proportion of the breathing circuits we provide include our patented Evaqua™ technology which incorporates a membrane which allows water vapour in the expiratory tube to be released. This technology overcomes the condensed water problem that health professionals face when dealing with patients on artificial ventilation. As a result of Evaqua's™ rapid acceptance, we are continuing to ramp up manufacturing capacity to meet growing demand.

We have further breathing system consumables under development, with the objective of improving care for more patients and increasing the financial contribution made by these products to our performance.

Pilot marketing of our MR860 system for use in laparoscopic (keyhole) surgery continued in Australia and New Zealand with encouraging acceptance in a number of hospitals. During laparoscopic surgery, cold dry carbon dioxide flows into the abdominal cavity to provide a viewing space for the surgeon. This can result in the dehydration of,

(continued on page 12)

CASE STUDY – Vigor8™

As we grow our business to reach more patients in more places, we are also using innovative tools to reach users of our CPAP devices in their own homes.

This year we completed development of Vigor8™, our online support and information web site for CPAP users, medical professionals and the dealers who distribute our products.

The most successful OSA treatments are those where compliance levels are high. When masks are properly fitted, suit the user and are linked to the most up-to-date flow generators incorporating humidification, users will persevere and benefit from the health improvements which come from an uninterrupted night's sleep without sudden breathing cessations.

One of the aims of Vigor8™ is to encourage good user habits. Information such as downloadable videos depicting correct mask use and fitting, reinforce the information provided by dealers and health professionals and can be viewed on-demand in patients' own homes. These videos can also be downloaded by their medical adviser to help them guide a first-time patient through the technology involved in their OSA treatment. Other useful information includes frequently asked questions about OSA and their answers. Also available are updates on the condition and links to OSA patient support groups and events in their local area.

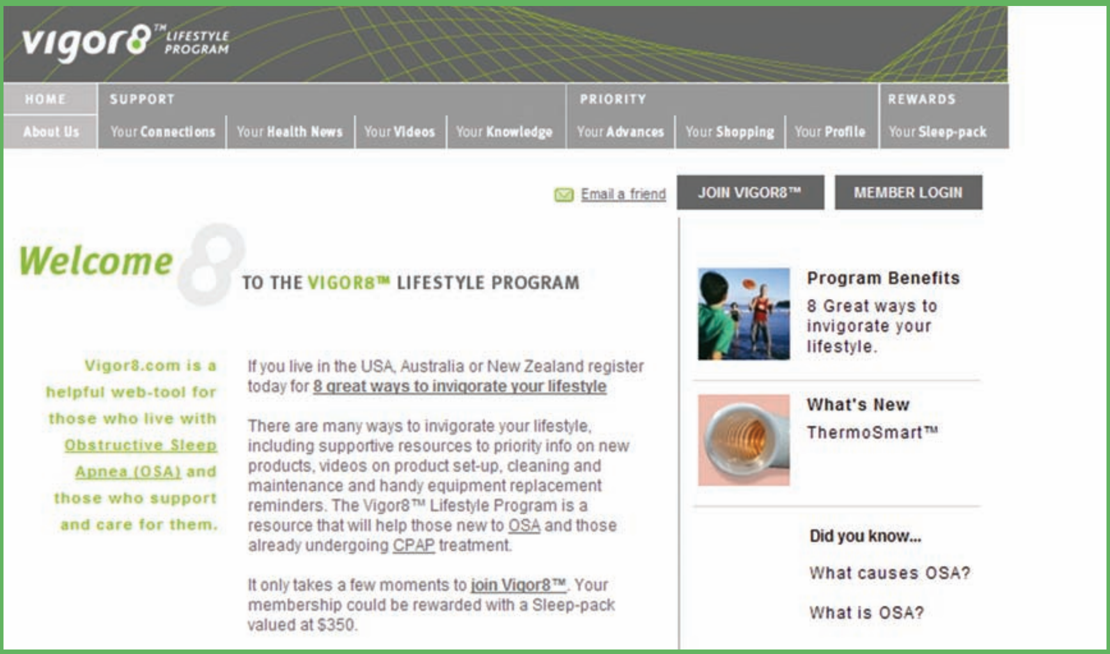
As well as ensuring CPAP users are well informed about their condition and its treatment, Vigor8™ is designed to ensure the treatment is the best it can be. The website will provide automatic reminders to patients when masks and other consumables are due for replacement and provide details for their local dealer to make the purchase simple.

At the same time, patients can be provided information about new masks or accessories which result from our continued R&D. Other benefits to end-users are provided on the website, including exclusive special offers for health-related products.

In future, the website may also play a role in new product development, as the more we understand about end-users' preferences, experiences with our products and their overall lifestyles, the more we can develop advanced solutions that meet these needs.

Vigor8™ is currently available in our largest market, the USA, as well as in Australia and New Zealand. Over time, the service will be expanded into other countries and languages.

Vigor8™ may be accessed at www.vigor8.com.



CASE STUDY – More Patients in More Places

Our respiratory humidification devices are primarily used in intensive care facilities in hospitals around the world. We are now poised to increasingly move beyond the intensive care unit and into other areas of the hospital.

This growth strategy has been assisted by the recent introduction of an extensive range of new respiratory interfaces to our international markets. This range of single patient use interfaces includes nasal and full face masks, tracheostomy and nasal oxygen therapy interfaces.

The new interfaces have been specifically developed for use across a variety of medical applications including non-invasive ventilation (NIV), oxygen therapy and humidity therapy. They may be used in the treatment of patients suffering from respiratory conditions such as pneumonia, emphysema, bronchiectasis and chronic bronchitis, as well as those patients who are weaning from invasive breathing assistance or are recovering from cardio-thoracic surgery.

Over the longer term we expect that the new interfaces will assist us to expand the use of our respiratory humidifier systems into a broader range of applications, with the potential to more than double the size of the market for our respiratory products.

The new interfaces have been introduced in New Zealand, Australia and selected international markets, with remaining markets to follow throughout the year.

Single use mask for non-invasive ventilation


Nasal interface for oxygen and humidity therapy

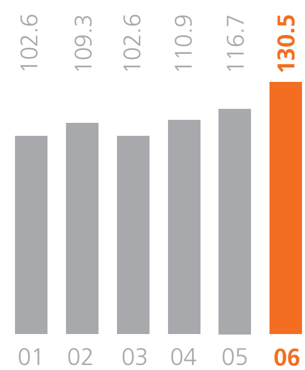
RESPIRATORY HUMIDIFICATION

KEY PRODUCTS

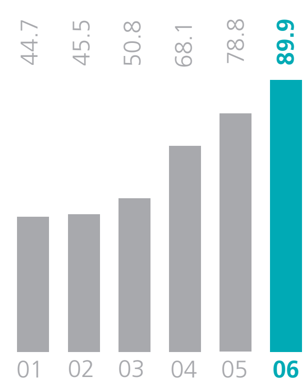
- MR850 Respiratory Humidifier
- MR810 Respiratory Humidifier
- MR880 Respiratory Humidifier
- HC550 Respiratory Humidifier
- MR200 Series Respiratory Humidification Chambers
- Single Use Adult and Neonatal Breathing Circuits
- RT040 Single Use Non-Invasive Mask
- Single Use Range of Oxygen Therapy Interfaces

RESPIRATORY HUMIDIFICATION PRODUCT REVENUE

NZ$ MILLIONS



US$ MILLIONS



Investment in R&D is fundamental to increasing our opportunities for growth in the respiratory care, OSA, neonatal care and related markets.

and damage to, the moist tissue surfaces involved. This can negatively impact clinical outcomes such as post operative pain, temperature, length of hospital stay, return to normal activity and adhesions (bands of tissue that can disrupt the body's normal functions). Adhesions, in particular are a major issue given that they result in chronic pelvic pain and, in some cases, infertility.

The MR860 system is designed to humidify the gas to body temperature, saturated with water vapour to maintain normal physiological conditions in the abdominal cavity. This reduces the adverse effects of using cold, dry gas and can improve clinical outcomes.

Neonatal Care

Sales of neonatal care products, which include infant warmers, neonatal breathing systems and neonatal resuscitators, again grew strongly with a 24% growth in trading revenue to US$15.9 million.

We have introduced two new single patient use interfaces into the neonatal care market: a range of oxygen cannula, used in nasal oxygen therapy and a range of resuscitation masks for use with our Neopuff resuscitator. These will further increase the value per patient and are part of our strategy to increase the proportion of recurring revenue from this product group.

Research and Development

	2006	2005	2004
Investment in R&D	**NZ$17.3 m**	NZ$16.2 m	NZ$14.1 m
R&D as % of revenue	**6.0%**	6.7%	6.6 %
R&D staff	**190**	170	150
Patents at 31 March			
US granted	**61**	52	45
US applications pending	**71**	70	58
Rest of world granted	**145**	97	52
Rest of world applications pending	**236**	234	214

Revenue from Continuing Operations by Region

47% NORTH AMERICA
29% EUROPE
19% ASIA / PACIFIC
5% OTHER

Investment in R&D is fundamental to increasing our opportunities for growth in the respiratory care, OSA, neonatal care and related markets. We regularly introduce innovative products and technologies which have been developed through our technical expertise and clinical partnerships.

Over the year, we increased our R&D spending to NZ$17.3 million, which represented 6% of trading revenue. This increase reflects the increased numbers of engineers, scientists, physiologists and other staff employed in research and development activities across all of our core product groups. A number of new products, which have been previously discussed, were introduced during the year along with a significant pipeline of products under development for future release.

Product and clinical development continues to progress well in our project to develop a system specifically designed to help treat home patients with chronic obstructive pulmonary disease (COPD). The new system combines technology from our OSA and intensive care products and we expect to begin initial introduction later this year.

NEW PRODUCTS RELEASED DURING THE YEAR

RT040 single use vented NIV full face mask
RT042 single use vented NIV nasal mask
RT050/051 single use nasal interface
RT052 single use direct tracheostomy interface
Oracle™ 452 NIV oral mask
FlexiFit™ 431 NIV full face mask
FlexiFit™ 407 NIV nasal mask
FlexiFit™ 406 "petite" nasal mask
SleepStyle™ 238/608 pressure feedback CPAP
Vigor8™ web based customer support program
Compliance Maximizer CPAP machine remote control

RT040 full face mask

In the OSA product group we have further masks and flow generators in development and we also expect to begin initial introduction of an automatic pressure setting flow generator later this year.

Sales and Marketing

As many of our new products provide us with the opportunity to reach more patients in more places, the expansion of our sales and marketing teams internationally enables us to interact directly with more and more customers and health professionals.

Being directly present in many of the 90 countries where our products are sold means we can better understand local needs and opportunities and create the strong relationships which help our business thrive.

We are expanding in both emerging and developed markets. Investment in these markets has been the catalyst for rapidly growing local sales.

In China, where we established a representative office in Guangzhou in 2003, we have expanded our sales team and are about to establish a distribution center to cater for growing demand and to better serve the network of dealers representing our products.

We have continued to add to our teams in North America and Europe, to increase geographical coverage and to support ongoing growth. During the year, we also established area sales managers in Brazil, Sweden and Taiwan.

The investment made in strengthening our North American team continues to contribute to increased sales in that market. Our partnership with Cardinal Health, a major provider of products and services to the healthcare sector in the United States, provides us with very effective distribution into the hospital market.

Cardinal's significant market strength makes it a preferred supplier to several of the large group purchasing organisations (GPOs) operating in healthcare. These GPOs, which represent as many as 3,000 hospitals each, negotiate supply contracts for everything from day-to-day pharmaceuticals through to investments in major pieces of hospital equipment. To service these contracts, Cardinal has developed sophisticated warehousing and distribution systems that enable it to make more than 33,000 deliveries to hospitals in the United States every day. Our partnership with Cardinal has not only led to an increasing market share in the acute care market, but also to strong growth in consumables such as single use breathing circuits.

Closer to home, our sales teams in Australia and New Zealand also continue to grow sales. Australia and New Zealand are especially important initial markets for us as they enable our R&D teams to work closely with our customers during the development and introduction of new products. These valued relationships enable us to enhance clinical and product information for all our markets internationally.

Manufacturing, Regulatory and Operations

Each year, the products that we provide are used in the treatment of millions of people around the world. Our commitment to them and their caregivers is that we always seek ways to ensure that our products can contribute to improved patient care and outcomes. We are continuously improving our products and the way in which they are manufactured, so that we achieve the highest levels of quality and reliability.

With the healthcare device industry regulated worldwide, the ability to meet stringent standards is vital to market acceptance of our products. We assist our compliance with these standards by operating a quality management system, certified to 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 (QSR) 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.

TÜV Group, a European notified body, audits our New Zealand facility and our 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, Australian and other regulatory requirements.

Our purpose-built 28,000m^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.

Construction of a second, almost identical building, covering 23,300m^2 is due for completion at the beginning of July 2006. The new NZ$60 million facility will accommodate expanded manufacturing, operations, administration and R&D capacity primarily for our obstructive sleep apnea business.

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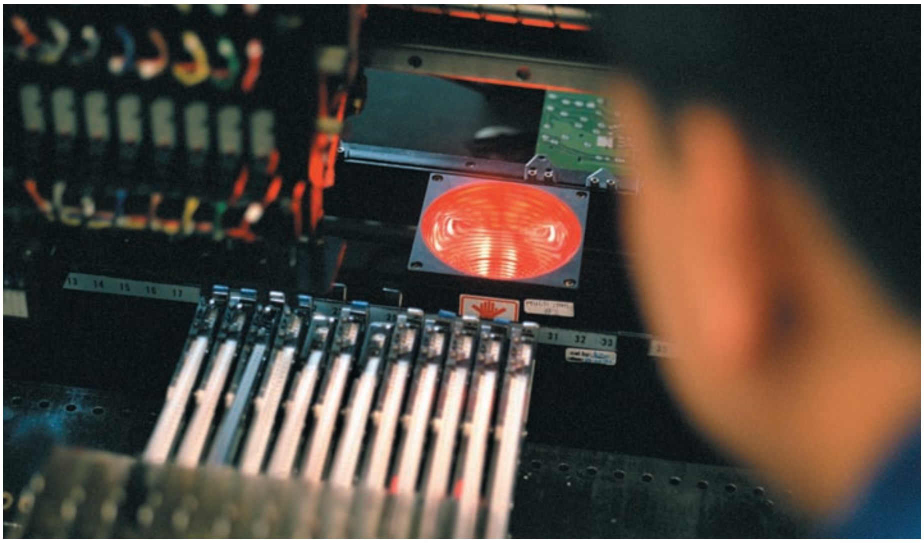


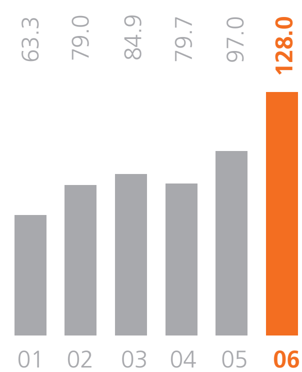
OSA

KEY PRODUCTS

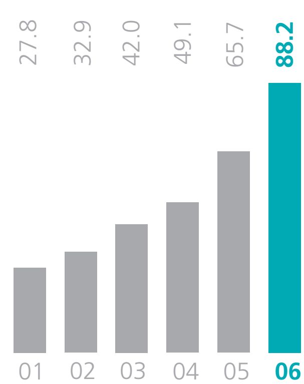
- SleepStyle™ 200 Series Flow Generators
- SleepStyle™ 600 Series Flow Generators
- HC150 CPAP Heated Humidifier
- FlexiFit™ 405 Nasal Mask
- FlexiFit™ 407 Nasal Mask
- FlexiFit™ 431 Full Face Mask
- Infinity™ 481 Direct Nasal Mask
- Aclaim2™ Nasal Mask
- Oracle™ 452 Oral Mask
- FlexiFit™ HC406 Petite Nasal Mask
- HC431NIV Full Face Mask
- HC407NIV Nasal Mask
- HC300 Series Chambers

OSA PRODUCT REVENUE

NZ$ MILLIONS



US$ MILLIONS



CASE STUDY – Neopuff™

Pre-term lungs are easily damaged if excessive pressure or volume is used at the time of resuscitation.

It can be difficult with commonly used resuscitation methods such as a self-inflating bag or a flow inflating bag to obtain the desired Peak Inspiratory Pressure (PIP) and maintain a constant Positive End Expiratory Pressure (PEEP).

The Neopuff™ is a manually operated gas powered tee piece infant resuscitator that allows the user to set the desired level of PIP and maintain a constant PEEP regardless of the skill or experience of the user. The benefit of controlled PIP is a reduced likelihood of over or under inflation of the lungs thereby improving oxygenation and reducing the risk of lung damage. The application of constant PEEP helps to stabilise the lungs, establish Functional Residual Capacity (FRC) and promotes the onset of normal breathing.

Recent review of the various International Resuscitation Guidelines has resulted in the latest editions now listing tee piece resuscitators as an effective way to treat neonates with breathing difficulties.

Poorly fitting masks are a common problem in infant resuscitation because any leaks in the seal around the face lead to variations in lung inflation, affect gas exchange and oxygenation of the blood and make it more difficult to achieve optimum PIP and PEEP pressures.

To further enhance the effectiveness of resuscitation our new mask range, released in May 2006, is believed to be a world first in that it includes masks in five different sizes specifically designed to suit pre-term infants weighing 500 grams and upwards. The mask seal conforms to the shape of the neonate's face, resulting in improved sealing. The range has been very well received.

Neopuff™ Resuscitator Masks

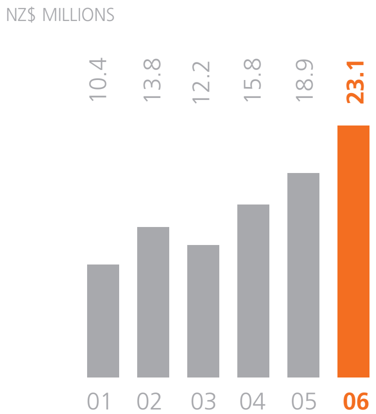
Neopuff™ Resuscitator System

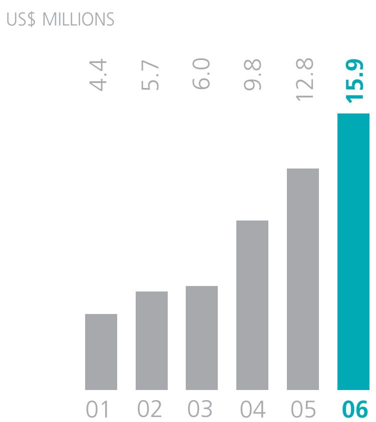
NEONATAL

KEY PRODUCTS

- IW930 Cosycot™ Infant Warmer
- IW910 Mobile Infant Warmer
- RD900 Neopuff™ Infant Resuscitator
- Infant Bubble CPAP System
- Single Use Range of Oxygen Therapy Cannula

NEONATAL CARE AND PATIENT WARMING PRODUCT REVENUE





We operate an integrated enterprise resource planning system which is used for forecasting, scheduling, manufacturing, ordering components, processing orders and managing inventory. This system is used in all of our facilities and provides real time reporting of sales and assists with inventory management.

Within our manufacturing facility, we achieved approximately NZ$2 million 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

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.

Our environmental management system 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 year, we continued to improve our recycling processes and our recycling of plastics, paper and metals increased by 25% to 142 tonnes from our Auckland facility.

Over the year, we recycled 45% of our overall waste material.

Our 40 hectare site at East Tamaki, Auckland, includes landscaped settlement ponds that take rainwater runoff from our building roof, car parks and surrounding roads. The ponds help to minimise sediment entering the nearby Tamaki River.

Health and Safety

We are committed to providing our people with a healthy and safe working environment. At our Auckland site, we operate a robust Health & Safety management system, which is audited by the New Zealand Accident Compensation Corporation (ACC). We are certified to ACC's Workplace Safety Programme at the tertiary level.

To sustain tertiary certification, we have continued to improve our systems and have undertaken internal audits.

Our Health & Safety team is continually developing, with employee representatives undergoing training approved by the New Zealand 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.

Human Resources

Worldwide, we employ approximately 1,300 people. Our human resources strategy continues to be focused on attracting, retaining and developing our family of employees around the world. We actively support the development of our people and continue to support equal employment opportunity principles for all of our employees.

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

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

Outlook

For the current year, we expect to continue to achieve strong trading revenue growth as we expand our business by pursuing the growth strategies described earlier.

We see clear opportunities to grow market share in the OSA, intensive care and neonatal care markets, while new products will assist us to help treat more patients in more places.

Our performance this year, as in others, has been achieved as a result of the efforts of a very capable and dedicated team. Sincere thanks to them and also to our Board, our customers, suppliers, clinical partners, distributors and our shareholders for their continued support and confidence in us.

Michael Daniell
Managing Director and Chief Executive Officer

Board of Directors

GARY A. PAYKEL
Gary A. Paykel, 64, 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 a director of Sport Lemonade Corporation Limited since October 1994 and has recently been appointed as a director of Team New Zealand. Mr Paykel is a Companion of the New Zealand Order of Merit.

P. MICHAEL SMITH
P. Michael Smith, 61, 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 Corporation Limited since July 2000 and Chairman since December 2003, Auckland International Airport Limited since June 1998, ING Property Trust Management Limited since October 2002 and Chairman since October 2004, Chairman of ING (NZ) Holdings Limited since September 2005, 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, 49, 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. 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, 65, 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.

THE BOARD: From the left, Gary Paykel, Michael Smith, Michael Daniell, Nigel Evans, Adrienne Clarke, Lindsay Gillanders and Sir Colin Maiden.

ADRIENNE E. CLARKE

Adrienne E. Clarke, 68, 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 Woolworths Limited since July 1994, Tridan Limited from June 1988, Hexima Limited from February 1998 and has also served as a director of WMC Resources Limited. 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, 56, 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, Rangatira Limited since October 2002, Auckland Packaging Company Limited since October 2002 and as Chairman of Auckland Packaging Company Limited since September 2003 and Vita New Zealand Limited since November 2004.
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. 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, 73, 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 DB Breweries Limited since February 1993. Sir Colin has also served as a director of DB Breweries Limited and its subsidiaries since May 1994 and New Zealand Refining Company Limited since April 1991. 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 2006.

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 NZ$104.1 million (2005 $89.7 million) was earned for the year ended 31 March 2006.

The profit after taxation was NZ$70.0 million (2005 $61.4 million).

Earnings per share were NZD13.8 cents (2005 12.1 cents).

SHAREHOLDERS' EQUITY

Shareholders' equity at 31 March 2006 totalled NZ$204.0 million (2005 $192.0 million).

SHARE ISSUES

During the year, 48,359 shares were issued under approved Employee Share Purchase Schemes in accordance with the Company's Constitution.

During the year, 2,298,096 shares were issued under Employee Share Option Plans upon the exercise of previously granted share options. Of these shares, 2,083,813 shares were issued under the Cancellation Offer Facility as approved by shareholders on 12 August 2004.

During the year, 3,995,200 share options were issued under an approved Employee Share Option Plan.

DIVIDENDS

The Directors approved a final dividend to be paid on 28 June 2006 of NZD7.0 cents per share (2005 5.8 cents), resulting in total dividends of NZD12.4 cents per share (2005 10.8 cents) for the year. All dividends carried full imputation credits.

DIRECTORS

In accordance with the Constitution, Lindsay Gillanders and Sir Colin Maiden 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

At the 2004 Annual Meeting of Shareholders, Fisher & Paykel Healthcare obtained shareholder approval to offer to optionholders a cancellation facility (the Cancellation Offer), whereby optionholders accepting the Cancellation Offer would not exercise the relevant options. Rather, those options would, at the optionholders' notice be cancelled in return for the issue of ordinary shares in the Company. The Cancellation Offer was designed to reduce the number of shares the Company is required to issue in relation to options granted under the Company's Employee Share Option Plans, thus reducing the dilution to existing shareholders from the exercise of options. The NZSX granted a waiver subject to certain conditions (including the review of the waiver in respect of any options issued after the third anniversary date of the waiver) from compliance with NZSX Listing Rule 7.3.2(a) which provides that an issue of securities which has been approved by shareholders must be made within 36 months of the approval.

The Company sought this waiver in order to be able to issue shares under the Cancellation Offer outside the timeframe set out in the NZSX Listing Rules as some of the options issued under the Company's Option Plans may be exercisable outside this timeframe.

REMUNERATION OF DIRECTORS

Non-executive Directors received the following Directors' fees from the Company in the year ended 31 March 2006:

	$
A E Clarke	60,282
N T Evans	72,125
W L Gillanders	55,625
C J Maiden	80,125
G A Paykel	125,156
P M Smith	107,938
	501,251

The maximum total monetary sum payable by the Company by way of Directors' fees is $600,000 per annum as approved by shareholders at the 2004 Annual Meeting of Shareholders.

As approved at the 2004 Annual Meeting of Shareholders, 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 Director's fees to each non-executive Director (except for Sir Colin Maiden) in office at the time of the 2004 Annual Meeting of Shareholders, 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. In addition, at the time of separation of the Company in 2001, shareholders approved a retirement payment of $170,000 to be paid to Sir Colin Maiden on his retirement.

Previously Sir Colin Maiden was to retire at or before the 2004 Annual Meeting of Shareholders. Sir Colin Maiden has, however, 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.

Non-executive Directors' retirement allowances have been provided for by the Company as at 31 March 2006 as follows:

	$
A E Clarke	54,621
N T Evans	65,875
W L Gillanders	49,375
C J Maiden	170,000
G A Paykel	106,510
P M Smith	97,521
	543,902

Directors' Report (continued)

Michael Daniell, acting in his capacity as an employee of the Company, received fixed remuneration (inclusive of the value of benefits) in the year ended 31 March 2006 of $591,900.

In addition to this fixed remuneration, Michael Daniell also received performance based at risk components, both paid out and accrued, of $193,870. Michael Daniell was also issued 200,000 options on 1 September 2005 with a remuneration value of $71,000. These options were valued using a variant of the Binomial Options Pricing Model (the assumptions for this calculation are included in Note 9 of the Financial Statements).

Michael 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 in their capacity as a Director. Remuneration (inclusive of the value of other benefits) received by such employees is included in the relevant bandings of employee remuneration exceeding $100,000 received in the year ended 31 March 2006.

GA Paykel
Chairman
25 May 2006

MG Daniell
Managing Director and Chief Executive Officer
25 May 2006

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 been introduced in both countries. 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 Rules relating to corporate governance, the New Zealand Exchange (NZX) Corporate Governance Best Practice Code, and the New Zealand Securities Commission's Corporate Governance Principles and Guidelines (collectively, the Principles).

The Governance Manual for the Company consists of various charters and policies which reflect the Principles.

The Board considers that the Company's corporate governance practices and procedures substantially comply with the Principles. The full content of the Company's Corporate Governance policies, practices and procedures can be found on the Company's website (www.fphcare.co.nz).

CODE OF CONDUCT (ETHICS)

The Company expects its employees and Directors to maintain high ethical standards. A Code of Conduct for the Company and a separate Directors' Code of Conduct sets out these standards.

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.

Corporate Governance (continued)

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.

Independence of Directors

The factors that the Company will take into account when assessing the independence of its Directors are set out in its Charter, a copy of which is available on the Company's website (www.fphcare.co.nz). 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, 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. Mr Michael Daniell is a Director who, within the last three years, has been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment. The Board has unanimously confirmed that, given that over three years have elapsed since Gary Paykel was an executive of the former Fisher & Paykel Industries Limited, he is to be considered an independent Director of 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. No Director has a material contractual relationship with the Company or another group member other than as a Directors 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 Gary Paykel and Sir Colin Maiden's position as valued independent Directors of the Company.
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 as at 31 March 2006, five of the current seven directors are independent directors, namely, Adrienne Clarke, Nigel Evans, Sir Colin Maiden, Gary Paykel and Michael Smith.

Committees

Specific responsibilities are delegated to the Audit & Risk 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 (www.fphcare.co.nz).

Audit & Risk Committee

The Audit & Risk 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 & Risk 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 (www.fphcare.co.nz). In addition, the Audit & Risk Committee is responsible for the establishment of policies and procedures relating to risk oversight, identification, management, compliance and control.

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

Using the Board's criteria for assessment of independence (outlined above), the Chairman of the Remuneration Committee, Gary Paykel, is an independent director.

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 Directors, 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. All members of the Nomination Committee are independent.

The Nomination Committee was not required to meet in the period to 31 March 2006.

BOARD PROCESSES

The Board held 11 meetings during the year ended 31 March 2006. The table below shows attendance at the Board and Committee Meetings. With the exception of January, Board meetings are held monthly, with other meetings to deal with matters of urgency occurring from time to time when necessary.

	BOARD		AUDIT & RISK COMMITTEE		REMUNERATION COMMITTEE	
	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED
A E Clarke	11	11				
M G Daniell	11	11				
N T Evans	11	11	3	3		
W L Gillanders	11	11				
C J Maiden	11	10	3	2	2	2
G A Paykel	11	10			2	2
P M Smith	11	10	3	3	2	2

Corporate Governance (continued)

The Nomination Committee did not meet during the year ended 31 March 2006.

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 to contribute to the successful governing of the Company and create value for shareholders.

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

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 all 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 NZSX Listing Rules.

On the retirement of a Director, the NZSX Listing Rules allow for a discretionary payment by way of lump sum or pension to that Director, provided that the total amount of the payment does not exceed that Director's 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. Any payments made will be within the limits prescribed by the NZSX Listing Rules, subject to the discretion of the Board, and will take 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. This retirement payment will meet the NZSX 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. The policy includes providing performance incentives which allow executives to share in the long-term success of the Company and share option plans intended to encourage the retention of senior management and increase the commonality between the interests of management and shareholders.

The ASX recommends that listed companies provide details of the nature and amount of remuneration of each of the five highest-paid officers of that Company (Principle 9 of the ASX Principles of Good Corporate Governance and Best Practice Recommendations). The Company considers that it is inappropriate to follow this recommendation as it employs a number of executives in its overseas sales offices and 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, which employees are the five highest paid employees each year will, to a large extent, depend 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 year ended 31 March 2006, 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 (www.fphcare.co.nz).

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 & Risk Committee receives an internal audit report. In addition, an annual internal audit plan is presented to and approved by the Audit & Risk 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

FINANCIAL COMMENTARY YEAR ENDED 31 MARCH 2006

Year ended 31 March 2006 compared to year ended 31 March 2005.

The following table sets forth the consolidated statement of financial performance for the years ended 31 March 2006 and 2005:

	Financial year ended 31 March			
	2006 NZ$millions	**2005 NZ$millions**	**2006 US$millions**	**2005 US$millions**
Trading revenue	**$289.547**	$240.566	**$199.556**	$162.599
Hedging gains (1)	**34.910**	30.884	**24.060**	20.874
Total operating revenue	**324.457**	271.450	**223.616**	183.473
Cost of sales	**121.365**	98.127	**83.645**	66.324
Gross profit	**203.092**	173.323	**139.971**	117.149
Gross margin on trading revenue	**70.1%**	**72.0%**	**70.1%**	**72.0%**
Selling, general and administrative expenses	**81.679**	67.382	**56.293**	45.543
Research and development expenses	**17.348**	16.196	**11.956**	10.947
Operating profit	**104.065**	89.745	**71.722**	60.659
Operating margin on trading revenue	**35.9%**	**37.3%**	**35.9%**	**37.3%**
Net interest income (expense)	**0.350**	1.247	**0.241**	0.843
Other income	**-**	0.570	**-**	0.385
Profit before taxation	**104.415**	91.562	**71.963**	61.887
Taxation	**(34.450)**	(30.157)	**(23.743)**	(20.383)
Profit after taxation	**$69.965**	$61.405	**$48.220**	$41.504

(1) Hedging gains on foreign currency option contracts and forward foreign currency contracts relating to sales made via foreign based subsidiaries.

TRADING REVENUE

Our trading revenue increased by 20% to NZ$289.547 million for the financial year ended 31 March 2006 from NZ$240.566 million for the financial year ended 31 March 2005.

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

Our trading revenue benefited by approximately NZ$13.1 million due to our foreign exchange hedging on export sales from New Zealand to third party customers when compared to the average spot rates for the financial year ended 31 March 2006. The benefit to trading revenue was approximately NZ$11.7 million for the financial year ended 31 March 2005.

The following table sets forth trading revenue by product group for the financial years ended 31 March 2006 and 2005:

	Financial year ended 31 March					
	2006 NZ$millions	**2005 NZ$millions**	**Percentage variation**	**2006 US$millions**	**2005 US$millions**	**Percentage variation**
Product group:						
Respiratory Humidification products	**130.462**	116.729	+12%	**89.954**	78.777	+14%
OSA products	**128.045**	96.950	+32%	**88.174**	65.698	+34%
Patient warming and neonatal care products	**23.069**	18.937	+22%	**15.918**	12.806	+24%
Core products sub-total	**281.576**	232.616	+21%	**194.046**	157.281	+23%
Distributed products	**7.971**	7.950	0%	**5.510**	5.318	+4%
Total	**$289.547**	$240.566	+20%	**$199.556**	$162.599	+23%

Sales of respiratory humidification products increased by 14% in US dollar terms in the financial year ended 31 March 2006 from sales in the prior year. Excluding the effects of currency translations, sales of respiratory humidification products are estimated to have increased by 17% in the financial year ended 31 March 2006. This increase was driven by strong market share gains in both adult and neonatal breathing circuits and other single use accessories and a continued move towards our MR850 humidifier technology. We also benefited from additional demand due to placing a significant number of MR850 humidifiers in the United States with a major national hospital buying group.

Sales of OSA products increased by 34% in US dollar terms in the financial year ended 31 March 2006 from sales in the prior year. Excluding the effects of currency translations, sales of OSA products are estimated to have increased by 35% in the financial year ended 31 March 2005. Growth was driven by masks and flow generators with 53% growth in US dollars for the financial year. This primarily reflected growing market share from our expanded range of masks and flow generators.

Sales of patient warming and neonatal care products increased by 24% in US dollar terms in the financial year ended 31 March 2006 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 26% in the financial year ended 31 March 2006. We achieved 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 4% in US dollars terms in the financial year ended 31 March 2006 from sales in the prior year, primarily due to an increase in the value of the New Zealand dollar and Australian dollar against the US dollar.

Financial Commentary (continued)

Sales of respiratory humidification products represented 45% and 48% of trading revenue for the financial years ended 31 March 2006 and 2005, respectively. Sales of OSA products represented 44% and 40% of trading revenue for the financial years ended 31 March 2006 and 2005, respectively. Sales of consumable and accessory products for core products accounted for 59% and 54% of trading revenue for the financial years ended 31 March 2006 and 2005, respectively. Trading revenue from respiratory humidification, OSA and patient warming and neonatal care products has grown at compound annual growth rates of 15% and 21% in New Zealand and US dollar terms respectively, from 31 March 2000 to 31 March 2006 as we have introduced new products and the markets for these products have expanded.

The following table sets forth our trading revenue for each of the primary regional markets for the financial years ended 31 March 2006 and 2005:

	Financial year ended 31 March			
	2006 NZ$millions	**2005 NZ$millions**	**2006 US$millions**	**2005 US$millions**
North America	**136.598**	103.930	**93.997**	70.522
Europe	**83.415**	75.258	**57.548**	50.826
Asia Pacific	**54.764**	50.518	**37.847**	33.914
Other	**14.770**	10.860	**10.164**	7.337
Total	**$289.547**	$240.566	**$199.556**	$162.599

In the financial year ended 31 March 2006, 65% of trading revenue was denominated in US dollars. We make a significant proportion of US dollar sales to customers outside the US. Euros, Australian dollars and British pounds represented approximately 17%, 7% and 7% of trading revenue respectively in the past financial year.

EXPENSES

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 (R&D) 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.

R&D activities are primarily conducted in New Zealand. R&D expenses totalled NZ$17.348 million for the year ended 31 March 2006 compared to NZ$16.196 million in the previous financial year. The increase was attributable to increases in R&D personnel in connection with the continuing expansion of product development activities for the respiratory humidification, OSA, and neonatal care product groups. R&D expenses represented 6.0% of trading revenue for the financial year ended 31 March 2006.

R&D expenses are expected to continue to grow due to a broadening of the product 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 21% to NZ$81.679 million in the financial year ended 31 March 2006 compared to NZ$67.382 million in the previous financial year. This increase was primarily attributable to an increase in global personnel to support our growing international sales and marketing activities, partially offset by the effects of currency translations. Excluding the effects of currency translations, selling, general and administrative expenses are estimated to have increased by 25% in the financial year ended 31 March 2006.

GROSS PROFIT

Gross profit increased to NZ$203.092 million, or 70.1% of trading revenue, in the financial year ended 31 March 2006 from NZ$173.323 million, or 72.0% of trading revenue, in the financial year ended 31 March 2005. Gross profit increased due to underlying volume growth. Gross margin percentage decreased due to the level of favourable foreign currency hedging in place during the financial year covering a lower proportion of our foreign currency receivables than the previous financial year, partially offset by product cost-out initiatives and favourable product-mix shifts.

The net benefit of approximately NZ$41.3 million for the current year from hedging was made up of approximately NZ$48.0 million related to third party and intercompany revenue offset by approximately NZ$6.7 million related to purchases of goods and services, the offset is due to the hedging of currency exposures on a net basis.

OPERATING PROFIT

Operating profit increased by 16% to NZ$104.065 million in the financial year ended 31 March 2006 from NZ$89.745 million in the financial year ended 31 March 2005.

Operating profit increased by 18% to US$71.722 million in the financial year ended 31 March 2006 from US$60.659 million in the financial year ended 31 March 2005.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2006, we had NZ$28.554 million in cash and short-term investments and NZ$23.841 million of borrowings. Short-term investments consist of highly liquid commercial paper. All our drawn borrowings are held outside New Zealand and are denominated in currencies other than New Zealand dollars. We had in place credit facilities that permit us to borrow up to a total of the equivalent of NZ$124.670 million, denominated primarily in New Zealand dollars, US dollars and Euros.

Net cash generated from operating activities totalled NZ$96.459 million for the financial year ended 31 March 2006. The pre-tax amount of cash that we generated was increased by approximately NZ$15.5 million for the financial year ended 31 March 2006, from NZ$19.783 million in the previous financial year, due to our cash flow rates of exchange being more favourable than our accounting rates of exchange.

The Company's capital expenditures totalled NZ$53.597 million for the financial year ended 31 March 2006. Included within total capital expenditure is NZ$38.942 million related to the construction of our second facility on our Auckland site. A further NZ$10.467 million is expected to be spent on completing our second facility. The majority of other expenditures related to the purchase of production tooling and equipment, computer equipment and software and patents.

Net cash used in financing activities was NZ$50.662 million for the financial year ended 31 March 2006. The payment of our final dividend for the prior financial year and interim dividend for the current financial year, along with NZ$5.053 million used to repurchase 1,649,902 shares under our on-market share buy back programme, were the main contributors to the significant outflow of funds.

PRICEWATERHOUSECOOPERS

AUDITORS' REPORT TO THE SHAREHOLDERS OF FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED

We have audited the financial statements on pages 35 to 62. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2006 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 39 to 42.

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 2006 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 35 to 62:

  (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 2006 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 25 May 2006 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Auckland

Statements of Financial Performance

FOR THE YEAR ENDED 31 MARCH 2006

PARENT 2005 NZ$000	PARENT 2006 NZ$000		NOTES	CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
66,335	**57,311**	**Trading revenue**	1	**289,547**	240,566
		Hedging gains		**34,910**	30,884
66,335	**57,311**	Total operating revenue		**324,457**	271,450
(906)	**(895)**	Operating expenses		**(220,392)**	(181,705)
65,429	**56,416**	**Operating profit**		**104,065**	89,745
		Interest income		**1,154**	1,585
		Interest expense		**(804)**	(338)
		Gain on sale of land		**-**	570
65,429	**56,416**	Profit before taxation	2	**104,415**	91,562
(208)	**(1,819)**	Taxation	3	**(34,450)**	(30,157)
65,221	**54,597**	**Profit after taxation**		**69,965**	61,405
		Basic earnings per share		**13.8 cps**	12.1 cps
		Diluted earnings per share		**13.3 cps**	11.7 cps
		Weighted average basic shares outstanding		**508,382,132**	508,686,610
		Weighted average diluted shares outstanding		**524,846,569**	523,841,480

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

Statements of Financial Position

AS AT 31 MARCH 2006

PARENT 2005 NZ$000	PARENT 2006 NZ$000		NOTES	CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
		ASSETS			
		Current assets			
18,173	-	Cash and bank		16,554	23,057
14,000	-	Short-term investments		12,000	14,000
152	21	Debtors and prepayments	4	55,013	54,592
		Inventories	5	36,190	30,906
4,489	3,230	Taxation	6	5,228	4,603
17	17	Employee share ownership plans loans	9	354	500
79,865	105,455	Intergroup advances			
116,696	108,723	Total current assets		125,339	127,658
		Long-term assets			
		Property, plant and equipment	7	128,296	82,899
		Patents and trademarks	8	2,255	2,382
		Employee share ownership plans loans	9	261	489
76,105	95,872	Investments in subsidiaries	10		
		Debtors and prepayments	4	-	2,285
		Goodwill on consolidation	11	1,030	1,415
183	199	Deferred taxation	12	10,289	13,182
192,984	204,794	**Total assets**		267,470	230,310
		LIABILITIES			
		Current liabilities			
		Bank overdrafts	13	5,506	6,241
		Trade creditors		19,173	15,075
		Provisions	14	1,144	817
		Borrowings	15	18,335	1,824
		Taxation	6	517	628
569	197	Other liabilities	16	17,666	12,771
569	197	Total current liabilities		62,341	37,356
		Long-term liabilities			
		Provisions	14	532	539
384	604	Other liabilities	16	604	384
953	801	**Total liabilities**		63,477	38,279
		SHAREHOLDERS' EQUITY			
192,031	203,993	Total shareholders' equity	17	203,993	192,031
192,984	204,794	**Total liabilities and shareholders' equity**		267,470	230,310

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

On behalf of the Board
25 May 2006

G A Paykel
Chairman

M G Daniell
Managing Director and Chief Executive Officer

Statements of Movements in Equity

AS AT 31 MARCH 2006

PARENT 2005 NZ$000	PARENT 2006 NZ$000		NOTES	CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
		Total recognised revenues and expenses			
65,221	**54,597**	Profit after taxation		**69,965**	61,405
(3,456)	**18,713**	Movement in revaluation reserve	17		
		Movement in currency translation reserve	17	**3,345**	360
61,765	**73,310**			**73,310**	61,765
		Contributions from shareholders			
1,064	**588**	Issue of share capital	17	**588**	1,064
1,064	**588**			**588**	1,064
		Distributions to shareholders			
(8,048)	**(5,053)**	Repurchase of share capital	17	**(5,053)**	(8,048)
(53,975)	**(56,883)**	Dividends	17	**(56,883)**	(53,975)
(62,023)	**(61,936)**			**(61,936)**	(62,023)
806	**11,962**	**Movements in shareholders' equity for the year**		**11,962**	806
191,225	**192,031**	**Shareholders' equity at beginning of the year**		**192,031**	191,225
192,031	**203,993**	**Shareholders' equity at end of the year**		**203,993**	192,031

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

Statements of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2006

PARENT 2005 NZ$000	PARENT 2006 NZ$000		NOTES	CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
		CASH FLOWS FROM OPERATING ACTIVITIES			
		Receipts from customers		**339,666**	276,453
64,787	**50,906**	Dividends received		**6**	5
1,575	**953**	Interest received		**1,260**	1,607
(809)	**(813)**	Payments to suppliers and employees		**(216,723)**	(175,798)
		Taxation paid		**(26,882)**	(29,836)
		Interest paid		**(868)**	(302)
65,553	**51,046**	Net cash flow from operations	18	**96,459**	72,129
		CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
		Sale of property, plant and equipment		**38**	891
		Purchase of property, plant and equipment		**(52,491)**	(16,814)
		Patent and trademark registration costs		**(1,106)**	(981)
58,313	**23,887**	Sale of short-term investments		**23,887**	58,313
(55,255)	**(10,106)**	Purchase of short-term investments		**(21,980)**	(55,255)
3,058	**13,781**	Net cash flow from (used in) investing activities		**(51,652)**	(13,846)
		CASH FLOWS (USED IN) FINANCING ACTIVITIES			
806	**-**	Employee share purchase schemes		**373**	874
359	**588**	Issue of share capital		**588**	359
(8,048)	**(5,053)**	Repurchase of share capital		**(5,053)**	(8,048)
		New borrowings		**83,961**	-
		Repayment of borrowings		**(68,542)**	-
(9,872)	**(16,546)**	Intercompany borrowings			
(53,975)	**(56,925)**	Dividends paid		**(56,925)**	(53,975)
(4,745)	**(5,064)**	Supplementary dividends paid to overseas shareholders		**(5,064)**	(4,745)
(75,475)	**(83,000)**	Net cash flow (used in) financing activities		**(50,662)**	(65,535)
(6,864)	**(18,173)**	Net (decrease) in cash		**(5,855)**	(7,252)
25,037	**18,173**	Opening cash		**16,816**	24,252
		Effect of foreign exchange rates		**87**	(184)
18,173	**-**	Closing cash		**11,048**	16,816
		RECONCILIATION OF CLOSING CASH			
18,173	**-**	Cash and bank		**16,554**	23,057
		Bank overdrafts		**(5,506)**	(6,241)
18,173	**-**			**11,048**	16,816

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

Statement of Accounting Policies

FOR THE YEAR ENDED 31 MARCH 2006

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED

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 ("GAAP") 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.

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.

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.

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.

FOREIGN CURRENCY TRANSLATIONS

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 each 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.

PRIOR YEAR COMPARATIVES

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

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies.

Statement of Accounting Policies

FOR THE YEAR ENDED 31 MARCH 2006

INCOME DETERMINATION

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.

ADVERTISING AND SALES PROMOTION COSTS

All advertising and sales promotion costs are expensed as incurred.

LEASES

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

RESEARCH AND DEVELOPMENT

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

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.

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.

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.

VALUATION OF ASSETS

INVESTMENTS

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

DEBTORS

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

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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost. Depreciation expense is computed on a straight line 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

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.

EMPLOYEE SHARE OWNERSHIP 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 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.

EMPLOYEE SHARE OPTION PLANS

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

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.

VALUATION OF LIABILITIES

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 also operates pension plans for employees. Contributions to the plans are expensed when made.

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.

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 sale of products in foreign currencies to foreign customers, and the purchase of raw materials in foreign currencies from foreign and domestic suppliers. The Company enters into forward foreign currency contracts and foreign currency option contracts to hedge anticipated net sales/costs denominated principally in US dollars, Euros, British pounds, Australian dollars, Japanese yen and Canadian dollars.

The terms of the foreign currency option contracts and forward foreign currency contracts generally do not exceed five years. However with Board approval foreign currency option contracts and forward foreign currency contracts may have terms of up to ten 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 the Statement of Financial Performance 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 was retained on the Statement of Financial Position and was offset against the gain/loss on settlement of the contracts. Movements in the mark to market fair values subsequent to 6 November 2002 were deferred and were reflected in the Statement of Financial Performance when the anticipated transactions occurred. The foreign currency exchange rates used in the mark to market adjustment as at 6 November 2002 became the effective hedge rates for the foreign currency option contracts and forward foreign currency contracts in place on that date.

As at 31 March 2006 all the foreign currency option contracts and forward foreign currency contracts that were in place on 6 November 2002 had been delivered. As a consequence there are no amounts in relation to the 6 November 2002 mark to market fair value retained on the Statement of Financial Position as at 31 March 2006.

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.

STATEMENTS OF CASH FLOWS

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

(i) Cash comprises cash and bank balances.

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2006

PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
NOTE 1		**OPERATING REVENUE**		
		Trading revenue		
		North America	136,598	103,930
		Europe	83,415	75,258
		Asia Pacific	54,764	50,518
		Other	14,770	10,860
64,787	50,906	Dividends		
1,548	6,405	Interest		
66,335	57,311	Total trading revenue	289,547	240,566
		Hedging gains (i)	34,910	30,884
66,335	57,311	Total operating revenue	324,457	271,450
		(i) Hedging gains on foreign currency option contracts and forward foreign currency contracts relating to sales made to foreign based subsidiaries.		
NOTE 2		**NET OPERATING PROFIT**		
65,429	56,416	Profit before taxation	104,415	91,562
		After charging:		
		Auditors' fees:		
		Statutory audit	360	327
		Auditor's half year review	26	24
		International Financial Reporting Standards accounting advice	7	84
		Tax compliance fees	65	104
		Total auditors' fees	458	539
		Donations	7	13
		Depreciation:		
		Buildings - structure	451	451
		Buildings - fit-out and other	2,142	2,150
		Leasehold improvements	19	14
		Plant and equipment	5,829	5,057
		Total depreciation	8,441	7,672
		Goodwill amortisation	385	385
		Patent and trademark amortisation	715	790
		Interest:		
		Borrowings	458	338
		Other	346	-
		Research and development	17,348	16,196
		Rental and operating leases	4,848	4,214
		Bad debts written off	26	230
		Movement in provision for doubtful debts	77	(57)
443	501	Directors' fees	501	443
		After crediting:		
64,787	50,906	Dividends received	6	5

Parent 2005 NZ$000	Parent 2006 NZ$000		Consolidated 2006 NZ$000	Consolidated 2005 NZ$000
NOTE 3		**TAXATION**		
65,429	56,416	Profit before taxation	104,415	91,562
21,592	18,617	Taxation at current rate of 33%	34,457	30,215
		Adjustments to taxation for:		
(21,395)	(16,818)	Non-assessable income	(292)	(315)
8	9	Non-deductible expenses	449	548
		Foreign rates other than 33%	(535)	174
205	1,808	This year's taxation	34,079	30,622
3	11	Other	371	(465)
208	1,819	Income tax expense	34,450	30,157
		This is represented by:		
250	1,836	Current taxation	31,377	30,194
(42)	(17)	Deferred taxation	3,073	(37)
208	1,819	Income tax expense	34,450	30,157
NOTE 4		**DEBTORS AND PREPAYMENTS**		
		CURRENT		
		Trade debtors	50,157	38,894
		Less allowance for doubtful accounts	(555)	(359)
			49,602	38,535
		Unrealised gain on foreign currency instruments	-	5,748
		Foreign currency option premium prepaid	621	7
152	21	Other debtors and prepayments	4,790	10,302
152	21		55,013	54,592
		TERM		
		Unrealised gain on foreign currency instruments	-	2,285
			-	2,285
NOTE 5		**INVENTORIES**		
		Materials	10,003	10,227
		Finished products	28,918	23,034
		Provision for obsolescence	(2,731)	(2,355)
			36,190	30,906

PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
NOTE 6		**TAXATION**		
		BALANCE AT BEGINNING OF THE YEAR		
		Taxation payable	**(628)**	(2,392)
3,405	**4,489**	Taxation recoverable	**4,603**	1,408
(250)	**(1,836)**	Total taxation expense in current year	**(31,377)**	(30,194)
		Taxation paid	**26,882**	29,833
4,745	**5,064**	Supplementary dividend tax credit	**5,064**	4,745
(3,411)	**(4,487)**	Other movements	**167**	575
		BALANCE AT END OF THE YEAR		
		Taxation payable	**(517)**	(628)
4,489	**3,230**	Taxation recoverable	**5,228**	4,603
NOTE 7		**PROPERTY, PLANT AND EQUIPMENT**		
		Land	**6,196**	6,196
		Buildings		
		- Structure	**25,322**	25,322
		- Fit-out and other	**22,788**	22,740
		Less accumulated depreciation	**(11,540)**	(8,947)
			36,570	39,115
		Total land and buildings	**42,766**	45,311
		Leasehold improvements	**776**	562
		Less accumulated depreciation	**(518)**	(461)
			258	101
		Plant and equipment	**57,598**	46,338
		Less accumulated depreciation	**(32,660)**	(27,507)
			24,938	18,831
		Capital projects		
		- Buildings	**49,728**	10,355
		- Other	**10,606**	8,301
			60,334	18,656
		Total cost	**173,014**	119,814
		Less total accumulated depreciation	**(44,718)**	(36,915)
			128,296	82,899

The independent valuation of land and buildings, excluding capital projects and leasehold improvements, valued by DTZ New Zealand as at 31 March 2006 was $108.000 million (2005 $90.900 million).

	PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
NOTE 8			**PATENTS AND TRADEMARKS**		
			Patents and trademarks	1,861	1,236
			Less accumulated amortisation	(1,269)	(728)
				592	508
			Patent and trademark applications	2,763	2,801
			Less accumulated amortisation	(1,100)	(927)
				1,663	1,874
			Total cost	4,624	4,037
			Less total accumulated amortisation	(2,369)	(1,655)
				2,255	2,382
NOTE 9			**EMPLOYEE OPTION AND SHARE OWNERSHIP PLANS**		
			Share purchase loans due for repayment:		
	17	17	Current	354	500
			One to two years	261	300
			Two to five years	-	189
			Term	261	489

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.

Shares are issued at a discount of 20% of market price, on terms permitted by the Schemes in accordance with section DC12 of the New Zealand Income Tax Act 2004, with no interest being charged on the loans. All New Zealand and Australian full time employees are eligible to participate after a qualifying period. 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.

422,566 Fisher & Paykel Healthcare shares (2005 699,141) are held by the Schemes, being 0.1% (2005 0.1%) of the Company's issued and paid up capital.

As at 31 March 2006, all shares were allocated to employees or executives, except for 56,491 (2005 2,277). 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:

	2006		2005	
	PRICE* $	NUMBER OF SHARES	PRICE* $	NUMBER OF SHARES
As at beginning of the year	2.00	696,864	1.57	588,790
Granted during the year	-	-	2.47	365,491
Vested during the year	1.49	(276,575)	1.70	(227,240)
Lapsed due to resignation	2.01	(54,214)	1.61	(30,177)
As at end of the year	2.37	366,075	2.00	696,864

	NON-VESTED SHARES OUTSTANDING	PRICE RANGE $	PRICE* $	REMAINING PERIOD TO VESTING
Period granted or purchased				
Pre 31 March 2004	34,650	1.49	1.49	0 to 1 year
1 April 2005 - 31 March 2006	331,425	2.46 - 2.61	2.47	2 years
	366,075			

* Weighted average

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 CE3 or DC12 of the New Zealand Income Tax Act 2004, 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 all the loans have been repaid.

13,970 Fisher & Paykel Healthcare shares (2005 4,400,550) are held by these Schemes, being 0.0% (2005 0.9%) of the Company's issued and paid up capital. As at 31 March 2006 13,970 shares were unallocated to employees or executives, (2005 13,970 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.

11,488 Fisher & Paykel Appliances shares (2005 3,618,720) are held by these Schemes, being 0.0% (2005 1.4%) of that Company's issued and paid up capital. As at 31 March 2006 11,488 shares were unallocated to employees or executives, (2005 11,488 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:

	2006		2005	
	PRICE* $	NUMBER OF SHARES	PRICE* $	NUMBER OF SHARES
As at beginning of the year	0.77	4,386,580	0.77	4,400,550
Vested during the year	0.77	(4,386,580)	-	-
Lapsed due to resignation	-	-	0.77	(13,970)
As at end of the year	-	-	0.77	4,386,580

* Weighted average

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

	2006		2005	
	PRICE* $	NUMBER OF SHARES	PRICE* $	NUMBER OF SHARES
As at beginning of the year	0.64	3,607,232	0.64	3,618,720
Vested during the year	0.64	(3,607,232)	-	-
Lapsed due to resignation	-	-	0.64	(11,488)
As at end of the year	-	-	0.64	3,607,232

* Weighted average

SHARE OPTIONS

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 2006 options had been granted to 186 employees (2005 149). Options granted to employees have no voting rights until they have been exercised and ordinary shares have been issued.

In September 2005 the Company granted 3,995,200 options (2005 4,997,500 options) to employees under the March 2003 plan (as amended). The Company has not recognised any compensatory expense in the Statement of Financial Performance. However the fair value of these options is estimated as $1,120,000 (2005 $960,000) on the date of allocation using the Binomial Options Pricing Model using the following assumptions:

Risk free interest rate	5.62%
Cost of equity	9.70%
Expected life (years)	5
Expected/historical share price volatility	16.00%

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

31 MARCH 2006	YEAR OF ISSUE				
	2006 (i)	2005 (ii)	2003 (iii)	2002 (iv)	TOTAL
As at beginning of the year	-	4,997,500	4,605,501	6,917,512	16,520,513
Granted during the year	3,995,200	-	-	-	3,995,200
Exercised during the year	-	-	(450,158)	(4,728,702)	(5,178,860)
Lapsed due to resignation	(30,700)	(75,000)	(26,668)	(2,500)	(134,868)
As at end of the year	3,964,500	4,922,500	4,128,675	2,186,310	15,201,985

31 MARCH 2005	YEAR OF ISSUE			
	2005 (ii)	2003 (iii)	2002 (iv)	TOTAL
As at beginning of the year	-	4,696,000	7,380,000	12,076,000
Granted during the year	4,997,500	-	-	4,997,500
Exercised during the year	-	(38,332)	(391,653)	(429,985)
Lapsed due to resignation	-	(52,167)	(70,835)	(123,002)
As at end of the year	4,997,500	4,605,501	6,917,512	16,520,513

(i) Options expiring September 2010 at exercise prices based on future costs of capital and dividends using a base price of $3.58 per option.
(ii) Options expiring August 2009 at exercise prices based on future costs of capital and dividends using a base price of $2.63 per option.
(iii) Options expiring March 2008 have an exercise price of $2.20 per option.
(iv) Options expiring November 2006 have an exercise price of $2.13 per option.

	SHARE OPTIONS OUTSTANDING	PRICE RANGE $	EXERCISE PRICE* $	REMAINING PERIOD TO VESTING
Period granted or purchased				
Pre 31 March 2004	6,314,985	2.13 - 2.20	2.18	0 to 2 years
1 April 2004 – 31 March 2005	4,922,500	Refer to footnote (ii) above		1 to 3 years
1 April 2005 – 31 March 2006	3,964,500	Refer to footnote (i) above		2 to 4 years
	15,201,985			

* Weighted average

PARENT 2005 NZ$000	PARENT 2006 NZ$000	
NOTE 10		**INVESTMENTS IN SUBSIDIARIES**
76,105	95,872	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 2006	INTEREST HELD BY GROUP 2005	PRINCIPAL ACTIVITIES
* Fisher & Paykel Healthcare Limited	NZ	100%	100%	Manufacture & Distribution of Healthcare Products
* Fisher & Paykel Healthcare Pty Limited	Australia	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare Limited	UK	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
Fisher & Paykel do Brasil Ltda	Brazil	100%	100%	Marketing Support
Fisher & Paykel Healthcare K.K.	Japan	100%	100%	Marketing Support
* Fisher & Paykel Healthcare Treasury Limited	NZ	100%	100%	Treasury Management

All subsidiaries have a balance date of 31 March with the exception of Fisher & Paykel do Brasil Ltda which has a balance date of 31 December.

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

PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
NOTE 11		**GOODWILL ON CONSOLIDATION**		
		Goodwill at beginning of the year	3,853	3,853
		Accumulated amortisation at beginning of the year	(2,438)	(2,053)
		Unamortised balance at beginning of the year	1,415	1,800
		Current year amortisation	(385)	(385)
		Unamortised balance at end of the year	1,030	1,415
		Comprising:		
		Goodwill	3,853	3,853
		Accumulated amortisation	(2,823)	(2,438)
			1,030	1,415

PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
NOTE 12		**DEFERRED TAXATION**		
141	183	Balance at beginning of the year	13,182	13,705
42	17	Current year timing differences	(3,073)	37
-	(1)	Other movements	180	(560)
183	199	Balance at end of the year	10,289	13,182
NOTE 13		**BANK OVERDRAFTS**		
		Bank overdrafts	5,506	6,241
		Bank overdrafts in foreign currencies: AUD 0.360 million (2005 AUD 0.528 million) GBP 0.121 million (2005 GBP 0.209 million) EUR 2.379 million (2005 EUR 2.799 million) USD 0.008 million (2005 USD 0.003 million)		
		UNUSED LINES OF CREDIT		
		Bank overdraft facilities	5,826	3,828
NOTE 14		**PROVISIONS**		
		CURRENT		
		Warranty provision		
		Balance at beginning of the year	817	746
		Current year provision	1,824	1,388
		Warranty expenses incurred	(1,497)	(1,317)
		Balance at end of the year	1,144	817
		TERM		
		Warranty provision		
		Balance at beginning of year	539	408
		Current year provision	(7)	131
		Warranty expenses incurred		
		Balance at end of the year	532	539

NOTE 15 BORROWINGS

PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
		Borrowing facilities due for repayment:		
		Current	18,335	1,824
		One to two years		
		Two to three years		
		Term		

These borrowings have been aged in accordance with the repayment terms of the facilities. All borrowings are drawn down by way of short term bills at interest rates current at draw down date (weighted average 7.4%, 2005 4.1%).

Borrowings in foreign currencies total EUR 1.0 million (2005 EUR 1.0 million), USD 10.0 million (2005 USD 0 million).

A Negative Pledge Deed has been executed and certain of the Group's bankers have been provided undertakings under this Deed. The companies in the group providing the undertakings under the Negative Pledge Deed 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 interest cover ratio for the Group shall not be less than 3 times;

(b) the net tangible assets of the Group shall not be less than $100 million; and

(c) 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

	2006 NZ$000	2005 NZ$000
Borrowings	95,016	3,531

NOTE 16 OTHER LIABILITIES

PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
		CURRENT		
		Employee entitlements	8,982	7,126
569	197	Other creditors and accruals	8,684	5,645
569	197		17,666	12,771
		TERM		
384	604	Other creditors and accruals	604	384
384	604		604	384

PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
NOTE 17		**SHAREHOLDERS' EQUITY**		
		509,331,940 (2005 508,635,387) ordinary shares issued and paid up. All shareholders rank equally with one vote attaching to each fully paid ordinary share.		
124,002	**128,264**	Shareholders' equity before reserves brought forward	**195,622**	195,176
1,064	**588**	Issue of share capital (i)	**588**	1,064
65,221	**54,597**	Profit after taxation	**69,965**	61,405
(8,048)	**(5,053)**	Repurchase of share capital (ii)	**(5,053)**	(8,048)
		Dividends: (iii)		
(28,547)	**(29,427)**	Final 2005 (2004)	**(29,427)**	(28,547)
(25,428)	**(27,498)**	Interim 2006 (2005)	**(27,498)**	(25,428)
-	**42**	Unclaimed dividends written back	**42**	-
128,264	**121,513**	Shareholders' equity before reserves carried forward	**204,239**	195,622
67,223	**63,767**	Revaluation reserve brought forward		
(3,456)	**18,713**	Revaluation of subsidiaries		
		Currency translation reserve brought forward	**(3,591)**	(3,951)
		Movement for the year	**3,345**	360
63,767	**82,480**	Total reserves	**(246)**	(3,591)
192,031	**203,993**	Total shareholders' equity	**203,993**	192,031

(i) 48,359 (2005 368,466) shares were issued under Share Purchase Schemes and 2,298,096 (2005 168,176) shares were issued under Employee Share Option Plans (refer note 9) upon exercise of previously granted share options in the year ended 31 March 2006. Of the shares issued under Employee Share Option Plans, 2,083,813 (2005 118,186) shares were issued under the Cancellation Offer Facility, as approved by shareholders on 12 August 2004.

(ii) 1,649,902 (2005 3,186,050) 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 $5,064,000 were paid (2005 $4,745,000).

PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
NOTE 18		**CASH FLOW RECONCILIATION**		
		RECONCILIATION OF PROFIT TO CASH FLOWS FROM OPERATING ACTIVITIES		
65,221	54,597	Profit after taxation	69,965	61,405
		Add (deduct) non-cash items:		
		Depreciation and writedown of property, plant and equipment to recoverable amount	8,441	7,672
		Amortisation of patents and trademarks	715	790
		Amortisation of goodwill	385	385
22	(219)	Accrued interest income	128	22
		Movement in provisions	321	201
(42)	(16)	Movement in deferred taxation	2,893	523
		Movement in working capital:		
204	66	Payables and accruals	9,471	4,798
(98)	131	Debtors and prepayments	(6,298)	(4,842)
		Inventory	(5,720)	(5,009)
(5,829)	(3,805)	Provision for taxation net of supplementary dividend paid	4,328	(215)
6,075	292	Intercompany advances in relation to operating cashflows		
		Movement in unrealised revaluations of foreign currency instruments	8,033	8,342
		Gain on sale of land included within investing activities	-	(570)
		Foreign currency exchange translation	3,797	(1,373)
65,553	51,046	Net cash flow from operations	96,459	72,129
NOTE 19		**IMPUTATION CREDIT ACCOUNTS**		
5,669	14,831	Balance at beginning of the year		
31,000	23,500	Imputation credits attached to dividends received		
(21,840)	(22,974)	Imputation credits attached to dividends paid to shareholders		
2	2	Other movements		
14,831	15,359	Balance at end of the year		
		Imputation credits directly and indirectly available to shareholders as at 31 March are:		
		Parent	15,359	14,831
		Subsidiaries	152	-
		Balance at end of the year	15,511	14,831
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. The Directors are unaware of the existence of any claim or other contingencies that would have a material impact on the operations of the Company.

	PARENT 2005 NZ$000	PARENT 2006 NZ$000		CONSOLIDATED 2006 NZ$000	CONSOLIDATED 2005 NZ$000
NOTE 21			**COMMITMENTS**		
			Capital expenditure commitments as at 31 March	11,872	50,614
			Lease commitments under non-cancellable operating leases:		
			Within one year	2,772	2,290
			Between one and two years	1,529	1,650
			Between two and three years	803	673
			Between three and four years	20	39
			Between four and five years	-	5
			Over five years		
				5,124	4,657

Operating lease commitments relate mainly to occupancy leasing of buildings.

NOTE 22

CURRENCY

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

		2006	2005
NZ$1.00 =	USD	0.6117	0.7081
	AUD	0.8549	0.9179
	GBP	0.3507	0.3769
	EUR	0.5033	0.5482
	JPY	71.83	75.98
	INR	27.31	30.99

CURRENCY TRANSLATIONS AND HEDGING

The Company sells products in a variety of currencies, predominantly US dollars and Euros. Because the Company's audited consolidated financial statements are denominated in New Zealand dollars, fluctuations in the relative value of the New Zealand dollar to other currencies will affect the reported amount of expenses incurred and sales invoiced in other currencies.

For example, if sales invoiced in US dollars were to increase by 5 percent during a period when the New Zealand dollar appreciated by 7 percent relative to the US dollar, as a result of the translation of US dollar revenue into New Zealand dollars for financial statement reporting purposes the Company would report a decline in these revenues. Accordingly, financial performance from year to year must be analysed in light of any fluctuations in the relative values of the principal currencies in which the Company conducts business compared to the New Zealand dollar.

In the financial year ended 31 March 2006 approximately 65 per cent (2005 61 percent) of revenue was denominated in US dollars. The Company makes a significant proportion of US dollar sales to customers outside the United States. Euros, British pounds and Australian dollars represented approximately 17, 7 and 7 per cent (2005 19, 8 and 8 per cent) respectively in the past financial year.

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.

On 12 July 2004 Fisher & Paykel Healthcare Properties Limited disposed of 5,368m^2 of land to Fisher & Paykel Finance Limited, a subsidiary of Fisher & Paykel Appliances Holdings Limited, which has two directors in common with the Company. The consideration for the sale, $860,000, was based upon an independent valuation and the sale transaction was conducted on normal commercial terms.

In presenting the financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the Parent have been eliminated. All transactions with related parties were in the normal course of business and provided on commercial terms.

The Parent company entered into certain transactions with its subsidiaries as follows:

Material amounts outstanding between the Parent company and its subsidiaries at year end were:

Loans from the Company to subsidiaries $105,455,000 (2005 $79,865,000).

Material transactions between the Parent company and its subsidiaries were:

Interest charged in respect of the loans to subsidiaries of $5,584,000 (2005 nil).

Dividends received by the Parent company from its subsidiaries $50,900,000 (2005 $64,782,000).

NOTE 24 FINANCIAL INSTRUMENTS

MANAGEMENT POLICIES

Through its importing and exporting activities the Company 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 sale of products in foreign currencies to foreign customers, and the purchase of raw materials in foreign currencies from foreign and domestic suppliers. The Company enters into foreign currency option contracts and forward foreign currency contracts to hedge anticipated net sales/costs denominated principally in US dollars, Euros, British pounds, Australian dollars, Japanese yen and Canadian dollars.

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

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 the Statement of Financial Performance 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 was retained on the Statement of Financial Position and was offset against the gain/loss on settlement of the contracts. Movements in the mark to market fair values subsequent to 6 November 2002 were deferred and were reflected in the Statement of Financial Performance when the anticipated transactions occurred. 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) became the effective hedge rates for the foreign currency option contracts and the forward foreign currency contracts in place on this date.

As at 31 March 2006 all the foreign currency option contracts and forward foreign currency contracts that were in place on 6 November 2002 had been delivered. As a consequence there are no amounts in relation to the 6 November 2002 mark to market fair value retained on the Statement of Financial Position as at 31 March 2006.

NOTE 24 FINANCIAL INSTRUMENTS (continued)

Interest rate risks are regularly monitored and advice taken on likely trends. When considered appropriate the Company will swap its floating interest rate borrowings and deposits into fixed interest rate borrowings and deposits. Also, when considered appropriate, the Company will swap its floating interest rate exposures in relation to unhedged anticipated foreign currency exposures into fixed interest rate instruments, being forward rate locks.

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

FAIR VALUE

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

	2006		2005	
	CARRYING AMOUNT NZ$000	FAIR VALUE NZ$000	CARRYING AMOUNT NZ$000	FAIR VALUE NZ$000
Cash and bank	16,554	16,554	23,057	23,057
Short-term investments	12,000	12,000	14,000	13,992
Debtors	49,602	49,602	38,535	38,535
Employee share ownership plans loans	615	547	989	788
Bank overdrafts	(5,506)	(5,506)	(6,241)	(6,241)
Borrowings	(18,335)	(18,335)	(1,824)	(1,824)
Creditors	(19,173)	(19,173)	(15,075)	(15,075)
Foreign currency forward exchange contracts	-	(2,080)	8,033	58,433
Foreign currency option contracts	-	(105)	-	13
Interest rate forward locks	-	-	-	(270)

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

	2006		2005	
	CARRYING AMOUNT NZ$000	FAIR VALUE NZ$000	CARRYING AMOUNT NZ$000	FAIR VALUE NZ$000
Cash and bank	-	-	18,173	18,173
Short-term investments	-	-	14,000	13,992
Intergroup advances	105,455	105,455	79,865	79,865
Employee share ownership plans loans	17	17	17	17
Creditors	(197)	(197)	(569)	(569)

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

CASH AND 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 Company 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 INSTRUMENTS

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

NOTE 24 FINANCIAL INSTRUMENTS (continued)

OFF BALANCE SHEET RISK

The Company 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:

	2006 NZ$000	2005 NZ$000
Purchase commitments forward exchange contracts	1,302	555
Sale commitments forward exchange contracts	47,299	186,747
Put option contracts purchased	85,224	1,901
Call option contracts sold	6,306	-

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

	2006 $000	2005 $000
USD	65,520	66,555
EUR	11,762	12,095
GBP	2,329	1,944
AUD	3,411	3,262
CAD	3,835	-

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

	2006 $000	2005 $000
USD	-	483
EUR	-	336
JPY	95,000	39,730

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

Notional principal of contract amounts outstanding was as follows:

	2006 NZ$000	2005 NZ$000
Interest rate forward locks	-	118,300

NOTE 24 FINANCIAL INSTRUMENTS (continued)

CREDIT RISK

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

In the normal course of business the Company incurs credit risk with trade receivables. The Company 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 Company's revenue: 2006 24.5% (2005 23.0%).

RECEIVABLE CONCENTRATION

The five largest customers have been the following proportion of the Company's debtors: 2006 21.8% (2005 17.0%).

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 of the Group, not being directors of Fisher & Paykel Healthcare Corporation Limited, received remuneration and other benefits that exceeded NZ$100,000 in value as follows:

REMUNERATION $		$	NUMBER OF EMPLOYEES	REMUNERATION $		$	NUMBER OF EMPLOYEES
100,000	-	110,000	27	220,001	-	230,000	1
110,001	-	120,000	24	230,001	-	240,000	4
120,001	-	130,000	19	240,001	-	250,000	1
130,001	-	140,000	16	250,001	-	260,000	1
140,001	-	150,000	16	260,001	-	270,000	1
150,001	-	160,000	12	280,001	-	290,000	2
160,001	-	170,000	11	290,001	-	300,000	2
170,001	-	180,000	9	310,001	-	320,000	1
180,001	-	190,000	2	400,001	-	410,000	1
190,001	-	200,000	3	480,001	-	490,000	1
200,001	-	210,000	3	550,001	-	560,000	2
210,001	-	220,000	2				

NOTE 26 SIGNIFICANT EVENTS AFTER BALANCE DATE

On 25 May 2006 the directors approved the payment of a fully imputed 2006 final dividend of $35,675,014 (7.0 cents per share) to be paid on 28 June 2006.

NOTE 27 IMPLEMENTATION OF NEW ZEALAND EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As announced by New Zealand's Accounting Standards Review Board in late 2002, the Company will be required to prepare financial statements under the New Zealand equivalent of International Financial Reporting Standards ("NZ IFRS") for the year ending 31 March 2008, including comparative financial information for the year ending 31 March 2007.

During the 2004 financial year a project team was established to plan for the transition to NZ IFRS and identify the impacts of its implementation. A high level overview has been completed and reported to the Audit & Risk Committee of the Board. The project team also examined the potential implications of adopting NZ IFRS from 1 April 2005 and decided not to early adopt the new standards.

The two main reasons for choosing not to early adopt were firstly to reduce the risk of an inconsistent application of NZ IFRS compared to other companies, both in New Zealand and overseas, and secondly to allow time for increased shareholder and analyst understanding of the earnings volatility that could result from the transition.

The areas of significant difference for the Company between previous New Zealand GAAP and NZ IFRS are set out below:

Functional currency No currency translation reserve post implementation. Foreign currency hedging of foreign subsidiaries' sales not inter-company sales.	The Company has assessed, based on the criteria in NZ IAS21 and the current nature of the Company's activities, the functional currency of the Parent and all subsidiaries to be New Zealand dollars as all operations are fully integrated operations. The effect of determining the functional currency of the foreign operations to be New Zealand dollars is that all transactions entered into by the foreign subsidiaries will be accounted for as if they had been entered into by the New Zealand entities. For example, monetary items will be translated into the functional currency using the closing rate of foreign exchange, and non-monetary items that are measured on a historical cost basis will be translated using the foreign exchange rate at the date of the transaction that resulted in their recognition. NZ IAS39 only allows hedge accounting for a foreign currency exposure into an entity's functional currency. The Company currently hedges a significant portion of its foreign currency exposure via hedging inter-company sales. On adoption of NZ IFRS the functional currency of the foreign subsidiaries will change to New Zealand dollars. The Company will change to hedging the local currency sales in the foreign subsidiaries to New Zealand dollars.

NOTE 27 IMPLEMENTATION OF NEW ZEALAND EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Hedge accounting Initial impact on retained earnings on implementation. Volatility in future earnings. New assets or liabilities recognised.	The Company maintains an off-balance sheet portfolio of foreign currency option contracts and forward foreign currency contracts to hedge the currency risks resulting from the sale of products in foreign currencies to foreign customers, and the purchase of raw materials in foreign currencies from foreign and domestic suppliers. Under previous New Zealand GAAP these contracts are accounted for as hedges with any gains or losses deferred and recognised when the hedged transaction occurs. Under NZ IFRS all derivative contracts, whether used as hedging instruments or otherwise, will be recognised at fair value in the Statement of Financial Position. Changes in the fair value of the derivatives will be recognised in the Statement of Financial Performance unless strict hedge criteria are met. Portfolio hedging of currency risk does not meet NZ IFRS hedge criteria and would require any foreign currency gains or losses on the portfolio hedge to be recognised in the Statement of Financial Performance. The project team is currently investigating how the Group will manage these currency exposures in the future, but believes hedge accounting is achievable for the majority of the Company's activities. As at 31 March 2006 the Company estimates that a fair value asset of $1.0 million and a fair value liability of $3.2 million would be recorded under NZ IFRS on the Statement of Financial Position had NZ IFRS already been adopted. The Company believes that the hedges would achieve hedge effectiveness with the net fair value being held in the cash flow hedge reserve reducing shareholders' funds by $2.2 million. The Company also uses financial instruments as hedges to manage exposures to interest rate risks. Where the Group is unable to meet NZ IFRS hedge criteria this could result in earnings volatility.
Share-based remuneration Initial impact on retained earnings on implementation. Higher expenses.	The Company issues share options to selected employees as a form of equity based compensation. The Company's current accounting policy does not recognise a compensatory expense in respect of these share options. The Company also issues shares to employees under the Employee Share Ownership Plan ("ESOP"). The shares are usually offered to employees at a discount of 20% of the market price at the time of issue. The Group does not recognise a compensatory expense for the discount on the issue of these shares. On adoption of NZ IFRS the Group will be required to determine the fair value of all share-based remuneration, including the discount on shares issued by the ESOP, and amortise the expenses over the relevant vesting periods.
Taxation Initial impact on retained earnings on implementation. Additional deferred tax assets or liabilities recognised.	Under NZ IFRS, deferred tax will be calculated using a "balance sheet" approach which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of Statement of Financial Position items rather than the accounting and tax values recognised in the Statement of Financial Performance. It is expected that on adoption of NZ IFRS the Group will be required to recognise additional deferred tax assets and liabilities.

NOTE 27 IMPLEMENTATION OF NEW ZEALAND EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Employee benefits Initial impact on retained earnings on implementation. Higher expenses. Additional liabilities recognised.	The Company currently recognises a liability when long service leave is fully vested. Under NZ IFRS long service leave is accrued as it is earned. The liability is measured using an actuarial technique to reflect the probability that payment will be required.
Accounting for goodwill Initial impact on retained earnings on implementation. Elimination of amortisation will reduce expenses and increase earnings. Volatility in results in event of impairment.	Under NZ IFRS goodwill is not required to be amortised but is required to be regularly reviewed for impairment, according to strict tests, with any loss in value recognised as an expense at the time the loss in value is identified. This will result in a change in the Group's accounting policy which currently amortises goodwill on a straight line basis over the lower of the period of expected benefit or ten years. Under the new policy, amortisation will no longer be charged and to the extent that recoverable amount of goodwill is valued higher than the book value this will result in a lower expense in the Statement of Financial Performance. Under previous NZ GAAP goodwill amortisation of $0.4 million is recorded on an annual basis. The Company believes that under NZ IFRS goodwill amortisation would not be recorded and that no impairment in the value of the Company's investment would be recorded.
Fair value as deemed cost Initial impact on retained earnings on implementation. Increase in asset value recognised.	Under NZ IFRS the Company may elect to measure an item of property, plant and equipment at the date of transition to NZ IFRS at its fair value and use that value as its deemed cost going forward. The Company has identified one asset that has a fair value significantly different to the historical cost recorded under current NZ GAAP, being land owned at East Tamaki in Auckland. Based upon an independent valuation carried out by DTZ New Zealand in March 2006 the fair value of this land was $59.2 million. This valuation compares to a historical cost value of $6.2 million recorded in these financial statements. Based upon these values the Company may elect to make a deemed cost adjustment to land of $53.0 million upon adoption of NZ IFRS.
Investment in subsidiaries (Parent) Decrease in asset value recognised. Decrease in shareholders' funds recognised.	Under NZ IFRS the Parent company will be required to record investments in subsidiaries at cost. Under previous NZ GAAP the investment in subsidiaries is recorded at net tangible asset value by the Parent company. The result of this change would be to reduce the value of the investment and shareholders' funds in the Parent company by the same amount. As at 31 March 2006 the Parent company estimates that the reduction to both investment in subsidiaries and shareholders' funds would be $82.5 million.

The above differences from current accounting policy have not been fully quantified as at this stage the Company is unable to reliably quantify all the effects. On adoption of NZ IFRS the majority of the transitional adjustments required will be made, retrospectively, against opening retained earnings.

The areas identified above should not be taken as an exhaustive list of all the differences between previous NZ GAAP and NZ IFRS.

The impacts discussed are based on management's current interpretation of the standards that have been released to date. There is potential for the significance of the impact to change when the Group prepares its first set of NZ IFRS financial statements due to changes in the standards, changes in our business, or changes in management's interpretation of the standards.

As we progress toward 1 April 2007 the Group will continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on the Group's earnings, cash flows and financial position.

Five Year Financial Summary – Continuing Operations (NZ$)

FOR THE YEARS ENDED 31 MARCH	2006 NZ$000	2005 NZ$000	2004 NZ$000 (EXCEPT AS OTHERWISE STATED)	2003 NZ$000	2002 NZ$000
FINANCIAL PERFORMANCE					
Trading revenue	**289,547**	240,566	214,865	208,420	214,596
Operating profit before abnormal items	**104,065**	89,745	79,015	73,885	81,902
Abnormal items	**-**	-	-	-	(1,092)
Operating profit	**104,065**	89,745	79,015	73,885	80,810
Net interest income (expense)	**350**	1,247	1,920	2,997	(267)
Foreign exchange gain (loss)	**-**	-	-	34,326	13,313
Gain on sale of land	**-**	570	-	-	-
Profit before taxation	**104,415**	91,562	80,935	111,208	93,856
Taxation	**(34,450)**	(30,157)	(26,236)	(38,304)	(31,532)
Profit after taxation	**69,965**	61,405	54,699	72,904	62,324
Operating profit percentage	**35.9%**	37.3%	36.8%	35.5%	37.7%
Trading revenue by region:					
North America	**136,598**	103,930	93,610	101,511	104,084
Europe	**83,415**	75,258	64,469	58,304	59,918
Asia Pacific	**54,764**	50,518	47,959	41,264	43,113
Other	**14,770**	10,860	8,827	7,341	7,481
Total	**289,547**	240,566	214,865	208,420	214,596
Trading revenue by product group:					
Respiratory humidification products	**130,462**	116,729	110,942	102,576	109,318
OSA products	**128,045**	96,950	79,687	84,893	79,046
Patient warming and neonatal care products	**23,069**	18,937	15,849	12,157	13,754
Core products subtotal	**281,576**	232,616	206,478	199,626	202,118
Distributed products	**7,971**	7,950	8,387	8,794	12,478
Total	**289,547**	240,566	214,865	208,420	214,596
FINANCIAL POSITION					
Tangible assets	**253,896**	213,331	206,436	217,048	207,953
Intangible assets	**13,574**	16,979	17,737	11,704	7,380
Total assets	**267,470**	230,310	224,173	228,752	215,333
Liabilities	**(63,477)**	(38,279)	(32,948)	(35,935)	(43,450)
Equity	**203,993**	192,031	191,225	192,817	171,883
Net tangible asset backing (cents per share)	**37.4**	34.4	33.9	35.4	32.1
Pre-tax return on total assets percentage	**39.0%**	39.8%	36.1%	48.6%	43.6%
Pre-tax return on equity percentage	**51.2%**	47.7%	42.3%	57.7%	54.6%
CASH FLOWS					
Net cash flow from operating activities	**96,459**	72,129	60,177	45,951	35,985
Net cash flow from (used in) investing activities	**(51,652)**	(13,846)	8,247	(50,959)	286,254
Net cash flow (used in) financing activities	**(50,662)**	(65,535)	(56,013)	(54,143)	(260,849)
SHARES OUTSTANDING					
Weighted basic average shares outstanding	**508,382,132**	508,686,610	512,119,710	511,837,245	557,687,080
Weighted diluted average shares outstanding	**524,846,569**	523,841,480	524,113,140	519,801,995	560,868,956
Basic shares outstanding at end of the year	**509,331,940**	508,635,387	511,284,795	512,183,995	511,675,415

Five Year Financial Summary – Continuing Operations (NZ$)

FOR THE YEARS ENDED 31 MARCH	2006 NZ$000	2005 NZ$000	2004 NZ$000 (EXCEPT AS OTHERWISE STATED)	2003 NZ$000	2002 NZ$000
DIVIDENDS AND EARNINGS PER SHARE (CENTS PER SHARE)					
Dividends paid:					
Final (i)	**5.8**	5.6	5.4	5.0	3.6
Interim	**5.4**	5.0	4.8	4.6	4.0
Total ordinary dividends	**11.2**	10.6	10.2	9.6	7.6
Special dividends	**-**	-	-	-	5.0
Basic earnings per share	**13.8**	12.1	10.7	14.2	11.2
Diluted earnings per share	**13.3**	11.7	10.4	14.0	11.1
(i) Final dividend relates to the prior financial year					
PATENTS					
Number of United States patents	**61**	52	45	32	29
Number of United States patent applications	**71**	70	58	53	25
Number of non-United States patents	**145**	97	52	48	46
Number of non-United States patent applications	**236**	234	214	158	130
RESEARCH AND DEVELOPMENT					
Research and development expenditure	**17,348**	16,196	14,115	11,535	10,264
Percentage of operating revenue	**6.0%**	6.7%	6.6%	5.5%	4.8%
CAPITAL EXPENDITURE					
Operational	**14,655**	9,499	9,300	6,730	10,767
Land and buildings	**38,942**	8,296	236	9,730	2,443
Total	**53,597**	17,795	9,536	16,460	13,210
Capital expenditure : depreciation/amortisation ratio	**5.9**	2.1	1.2	2.2	2.2
NUMBER OF EMPLOYEES					
By function:					
Research and development	**190**	170	150	130	120
Manufacturing and operations	**676**	579	440	370	344
Sales, marketing and distribution	**345**	288	256	220	207
Management and administration	**65**	59	54	47	45
Total	**1,276**	1,096	900	767	716
By region:					
New Zealand	**983**	855	690	586	547
North America	**112**	85	77	63	58
Europe	**121**	104	93	81	72
Rest of World	**60**	52	40	37	39
Total	**1,276**	1,096	900	767	716
AVERAGE EXCHANGE RATES (NZ$1 =)					
USD	**0.6898**	0.6759	0.6146	0.4945	0.4159
AUD	**0.9195**	0.9087	0.8835	0.8776	0.8145
GBP	**0.3876**	0.3646	0.3609	0.3191	0.2903
EUR	**0.5677**	0.5338	0.5210	0.4966	0.4727
JPY	**78.25**	72.04	-	-	-
INR	**30.48**	30.42	-	-	-

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

Five Year Financial Summary – Continuing Operations (US$)

FOR THE YEARS ENDED 31 MARCH	2006 US$000	2005 US$000	2004 US$000 (EXCEPT AS OTHERWISE STATED)	2003 US$000	2002 US$000
FINANCIAL PERFORMANCE					
Trading revenue	**199,556**	162,599	132,056	103,063	89,250
Operating profit before abnormal items	**71,722**	60,659	48,563	36,536	34,063
Abnormal items	**-**	-	-	-	(454)
Operating profit	**71,722**	60,659	48,563	36,536	33,609
Net interest income (expense)	**241**	843	1,180	1,483	(111)
Foreign exchange gain (loss)	**-**	-	-	16,975	6,870
Gain on sale of land	**-**	385	-	-	-
Profit before taxation	**71,963**	61,887	49,743	54,994	40,368
Taxation	**(23,743)**	(20,383)	(16,125)	(18,941)	(13,554)
Profit after taxation	**48,220**	41,504	33,618	36,053	26,814
Operating profit percentage	**35.9%**	37.3%	36.8%	35.5%	37.7%
Trading revenue by region:					
North America	**93,997**	70,522	57,722	50,071	43,281
Europe	**57,548**	50,826	39,594	28,938	24,934
Asia Pacific	**37,847**	33,914	29,294	20,402	17,923
Other	**10,164**	7,337	5,446	3,652	3,112
Total	**199,556**	162,599	132,056	103,063	89,250
Trading revenue by product group:					
Respiratory humidification products	**89,954**	78,777	68,068	50,752	45,454
OSA products	**88,174**	65,698	49,055	41,999	32,868
Patient warming and neonatal care products	**15,918**	12,806	9,796	6,004	5,743
Core products subtotal	**194,046**	157,281	126,919	98,755	84,065
Distributed products	**5,510**	5,318	5,137	4,308	5,185
Total	**199,556**	162,599	132,056	103,063	89,250
FINANCIAL POSITION					
Tangible assets	**155,308**	151,060	136,454	120,135	91,665
Intangible assets	**8,303**	12,023	11,724	6,477	3,253
Total assets	**163,611**	163,083	148,178	126,612	94,918
Liabilities	**(38,828)**	(27,106)	(21,778)	(19,888)	(19,152)
Equity	**124,783**	135,977	126,400	106,724	75,766
Net tangible asset backing (cents per share)	**22.9**	24.4	22.4	19.6	14.2
Pre-tax return on total assets percentage	**44.0%**	37.9%	33.6%	43.4%	42.5%
Pre-tax return on equity percentage	**57.7%**	45.5%	39.4%	51.5%	53.3%
CASH FLOWS					
Net cash flow from operating activities	**66,480**	48,753	36,670	22,212	14,959
Net cash flow from (used in) investing activities	**(35,599)**	(9,359)	5,068	(25,199)	119,053
Net cash flow (used in) financing activities	**(35,733)**	(44,295)	(34,109)	(25,786)	108,487)
SHARES OUTSTANDING					
Weighted basic average shares outstanding	**508,382,132**	508,686,610	512,119,710	511,837,245	557,687,080
Weighted diluted average shares outstanding	**524,846,569**	523,841,480	524,113,140	519,801,995	560,868,956
Basic shares outstanding at end of the year	**509,331,940**	508,635,387	511,284,795	512,183,995	511,675,415

Five Year Financial Summary – Continuing Operations (US$)

FOR THE YEARS ENDED 31 MARCH	2006 US$000	2005 US$000	2004 US$000 (EXCEPT AS OTHERWISE STATED)	2003 US$000	2002 US$000
DIVIDENDS AND EARNINGS PER SHARE (CENTS PER SHARE)					
Dividends paid:					
Final (i)	**4.1**	4.0	3.0	2.4	2.0
Interim	**3.8**	3.0	3.2	2.2	1.6
Total ordinary dividends	**7.9**	7.0	6.2	4.6	3.6
Special dividends	**-**	-	-	-	2.0
Basic earnings per share	**9.5**	8.2	6.6	7.0	4.8
Diluted earnings per share	**9.2**	7.9	6.4	6.9	4.8
(i) Final dividend relates to the prior financial year.					
PATENTS					
Number of United States patents	**61**	52	45	32	29
Number of United States patent applications	**71**	70	58	53	25
Number of non-United States patents	**145**	97	52	48	46
Number of non-United States patent applications	**236**	234	214	158	130
RESEARCH AND DEVELOPMENT					
Research and development expenditure	**11,956**	10,947	8,675	5,704	4,269
Percentage of operating revenue	**6.0%**	6.7%	6.6%	5.5%	4.8%
CAPITAL EXPENDITURE					
Operational	**10,100**	6,421	5,716	3,328	4,478
Land and buildings	**26,839**	5,607	145	4,811	1,016
Total	**36,939**	12,028	5,861	8,139	5,494
Capital expenditure : depreciation/amortisation ratio	**5.9**	2.1	1.2	2.2	2.2
NUMBER OF EMPLOYEES					
By function:					
Research and development	**190**	170	150	130	120
Manufacturing and operations	**676**	579	440	370	344
Sales, marketing and distribution	**345**	288	256	220	207
Management and administration	**65**	59	54	47	45
Total	**1,276**	1,096	900	767	716
By region:					
New Zealand	**983**	855	690	586	547
North America	**112**	85	77	63	58
Europe	**121**	104	93	81	72
Rest of World	**60**	52	40	37	39
Total	**1,276**	1,096	900	767	716
AVERAGE EXCHANGE RATES (US$1 =)					
NZD	**1.4497**	1.4795	1.6271	2.0222	2.4044
AUD	**1.3330**	1.3444	1.4375	1.7747	1.9584
GBP	**0.5619**	0.5394	0.5872	0.6453	0.6980
EUR	**0.8230**	0.7898	0.8477	1.0042	1.1366
JPY	**113.44**	106.58	-	-	-
INR	**44.19**	45.01	-	-	-

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

Shareholder Information

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED

SIZE OF HOLDINGS	NUMBER OF HOLDERS	%	ORDINARY SHARES NUMBER OF SHARES	%
1 - 1,000	2,426	15.97	1,430,624	0.28
1,001 - 5,000	7,686	50.60	20,908,300	4.10
5,001 – 10,000	2,718	17.90	20,204,497	3.97
10,001 – 100,000	2,200	14.48	50,444,417	9.90
100,001 – and over	160	1.05	416,610,329	81.75
Total	15,190	100.00	509,598,167	100.00

The details set out above were as at 22 May 2006.

As disclosed in note 9 of the Financial Statements there were 15,201,985 options on issue to employees as at 31 March 2006. The Company only has one class of shares on issue, ordinary shares, and these shares are listed on the NZSX and ASX. There are no other classes of equity security currently on issue. The Company's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by voice, by show of hands, or poll. There are no voting rights attaching to options.

There are 297 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 22 May 2006.

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. At 31 March 2006, the Company had repurchased and cancelled 5,774,537 shares at a total cost of $15.3 million and a cost per share of $2.65. The Company intends to complete the share buy-back programme in the new financial year, market conditions allowing.

The Company is not subject to Chapters 6, 61, 6B and 6C of the Corporations Act dealing with the acquisition of shares (ie 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 of 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 and their shareholding according to the substantial security holder file as at 22 May 2006 were as follows:

	ORDINARY SHARES	%
The Capital Group Companies Inc. (notice dated 15 November 2004)	44,025,000	8.64
AXA Asia Pacific Holdings Limited (notice dated 12 January 2005)	33,711,063	6.62
Morgan Stanley Asset & Investment Trust Management Co. Limited (notice dated 20 June 2005)	32,550,221	6.39
Caledonia Investments Limited & associated entities (notice dated 26 February 2004)	29,694,550	5.83

Shareholder Information (continued)

PRINCIPAL SHAREHOLDERS

The names and holdings of the twenty largest registered shareholders as at 22 May 2006 were:

	ORDINARY SHARES	%
New Zealand Central Securities Depository Limited	272,725,910	53.52
UBS Nominees Pty Limited	22,684,141	4.45
National Nominees Limited	16,392,755	3.22
Citicorp Nominees Pty Limited	12,359,582	2.43
J P Morgan Nominees Australia Limited	9,672,072	1.90
Custodial Services Limited	5,514,322	1.08
Gurshon Fisher	5,447,050	1.07
Peter Hanbury Masfen & Joanna Alison Masfen	3,651,070	0.72
Woolf Fisher Trust Incorporated	3,542,415	0.70
Westpac Custodian Nominees Limited	3,149,465	0.62
Queensland Investment Corporation	2,882,536	0.57
First NZ Capital Custodians Limited	2,827,620	0.55
G A Paykel, D M Paykel and K R Rushbrook	2,382,935	0.47
Private Nominees Limited	2,226,641	0.44
J Fisher, A J J Agar, G L Collinson and N S Robinson	2,157,530	0.42
Joyce Fisher	2,055,590	0.40
UBS Wealth Management Australia Nominees Pty Limited	1,907,630	0.37
C J H Holdings Pty Limited	1,591,190	0.31
Velcara Pty Limited	1,520,350	0.30
Maurice & Phyllis Paykel Trust Incorporated	1,484,000	0.29

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 22 May 2006 were:

National Nominees New Zealand Limited	104,175,079
Westpac Banking Corporation – Client Assets No 2	48,170,848
ANZ Nominees Limited	18,617,919
Accident Compensation Corporation	16,700,423
Citibank Nominees (New Zealand) Limited	16,491,605
Custody and Investment Nominees Limited	8,492,435
NZ Superannuation Fund Nominees Limited	7,013,919
TEA Custodians Limited	6,678,643
Premier Nominees Limited – Armstrong Jones New Zealand Share Fund	6,386,672
Asteron Life Limited	4,798,160

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

DIRECTORS' SHAREHOLDINGS

Directors held interests in the following shares in the Company at 31 March 2006:

A E Clarke	- beneficially owned	50,000
M G Daniell (i)	- beneficially owned	460,080
	- not beneficially owned	399,764
N T Evans	- beneficially owned	23,180
	- not beneficially owned	3,542,415
W L Gillanders	- beneficially owned	514,415
C J Maiden	- beneficially owned	54,295
	- not beneficially owned	13,970
P M Smith	- beneficially owned	200,000
G A Paykel	- beneficially owned	2,522,635
	- not beneficially owned	2,072,919

(i) Mr Daniell has a beneficial interest in 625,000 options issued under the 2001 Share Option Plan, and 825,000 options issued under the 2003 Share Option Plan.

Shareholder Information (continued)

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 2005 and 31 March 2006.

Particulars of such disclosures are:

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 Maiden, as a non-beneficial trustee of the Company's Executive Share Purchase Scheme, disposed of shares pursuant to the Company's Executive Share Purchase Scheme.

Mr Paykel resigned as a non-beneficial trustee of a family trust that had an interest in 158,400 shares, on 13 May 2005.

Mr Daniell transferred 89,630 shares to a family trust on 20 May 2005 at an average price of $2.99 per share.

Mr Daniell acquired 15,000 shares on 8 June 2005 at an average price of $2.92 per share.

Mr Daniell transferred 15,000 shares on 13 July 2005 to a family trust at $2.92 per share.

Mr Daniell was granted 200,000 options on 1 September 2005 under the 2003 Share Option Plan.

Mr Daniell cancelled 625,000 options and in return was issued 271,630 shares on 28 November 2005 at $3.7673 per share.

Mr Daniell transferred 271,630 shares on 29 November 2005 to a family trust at $3.62 per share.

STATUTORY DISCLOSURE

Subsidiary Company Directors

Section 211(2) of the New Zealand Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors, and particulars of entries in the interests registers made during the year ended 31 March 2006.

No subsidiary has Directors who are not full-time employees of the Group.

The remuneration and other benefits of such employees (received as employees) totalling $100,000 or more during the year ended 31 March 2006, are included in the relevant bandings for remuneration disclosed in the Notes to the Financial Statements.

No employee of the Fisher & Paykel Healthcare Group appointed as a Director of Fisher & Paykel Healthcare Corporation Limited or its subsidiaries receives or retains any remuneration or other benefits in their capacity as a Director.

The following persons respectively held office as Directors of subsidiary companies at the end of the year:

Fisher & Paykel Healthcare Limited (NZ)
Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Properties Limited (NZ)
Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Treasury Limited (NZ)
Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Pty Limited (Australia)
Michael Daniell, Lewis Gradon, Paul Shearer, David Boyle, Greg Watson

Fisher & Paykel Healthcare Limited (UK)
Michael Daniell, Paul Shearer, Jill Nelson

Fisher & Paykel Healthcare SAS (France)
Michael Daniell, Paul Shearer, Patrick McSweeny, Colin Board

Fisher & Paykel Holdings GmbH (Germany)
Colin Board

Fisher & Paykel Healthcare GmbH & Co KG (Germany)
Colin Board, Peter Spoljaric

Fisher & Paykel Holdings Inc. (USA)
Michael Daniell, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Inc. (USA)
Michael Daniell, Paul Shearer, Justin Callahan

Fisher & Paykel Healthcare K.K. (Japan)
Michael Daniell, Paul Shearer, Kokichi Kitahara

Fisher & Paykel do Brazil Ltda (Brazil)
Brazilian law does not require directors. Decision making authority lies with the directors of the company's shareholders.

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

Chairman of:
Fisher & Paykel Appliances Holdings Limited
Milly Molly Group Holdings Limited

a director of:
ACG Capital Limited
Edison Limited
Endeavour Yachting Limited
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited
Howgate Holdings Limited
Investment 102 Limited
104 Limited
Keano Enterprises Limited
Lady Ruby Investments Limited
Levante Holdings Limited
New Zealand 93 Limited
Sport Lemonade Corporation Limited
Sport Sunshine Limited
Stonex Systems Limited
Team New Zealand Limited

a trustee of:
Andsar Family Trust
Eden Park Trust Board
Endeavour Yachting Limited
Levante No. 2 Trust
Maurice Paykel Charitable Trust (Inc)
Maurice and Phyllis Paykel Trust (Inc)
Team New Zealand Trust

a shareholder in:
ACG Capital Limited
Edison Limited
Fisher & Paykel Appliances Holdings Limited
Fisher & Paykel Healthcare Corporation Limited
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited – 100 ordinary shares jointly held with MG Daniell
Howgate Holdings Limited
Keano Enterprises Limited
Lady Ruby Investments Limited
Investment 102 Limited
104 Limited
Milly Molly Group Holdings Limited
New Zealand 93 Limited
Silverdale Park Limited
Sport Lemonade Corporation Limited
Sport Sunshine Limited
Stonex Systems Limited

ADRIENNE CLARKE

a director of:
Woolworths Limited
Tridan Limited
Hexima Limited

M G DANIELL

a director of:
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited

a shareholder in:
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited – 100 ordinary shares jointly held with GA Paykel

N T EVANS

a director of:
Managers & Consultants Limited
Quark Technology Limited
Woolf Fisher Trust

a trustee of:
Woolf Fisher Trust

W L GILLANDERS

Chairman of:
Auckland Packaging Company Limited
Vita New Zealand Limited

a director of:
Fisher & Paykel Appliances Holdings Limited
Fisher & Paykel Trustee Limited
LRS Management Limited
Rangatira Limited

C J MAIDEN

Chairman of:
Marsh (NZ) Limited Advisory Group
D B Breweries Limited

a director of:
D B Breweries Limited and Subsidiaries
The New Zealand Refining Co Limited

a trustee of:
Fisher & Paykel Executive Share Purchase Scheme

P M SMITH

Chairman and trustee of:
The Lion Foundation

Chairman of:
BrainZ Instruments Limited
ING (NZ) Holdings Limited
ING Property Trust Management Limited
Tru-Test Corporation Limited

a director of:
Auckland International Airport Limited
Hauraki Private Equity No. 1 Fund
Hauraki Private Equity No. 2 Fund

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 (NZ)
* Fisher & Paykel Healthcare Pty Limited (Australia)
* Fisher & Paykel Healthcare Properties Limited (NZ)
* Fisher & Paykel Healthcare Treasury Limited (NZ)
Fisher & Paykel Healthcare Limited (UK)
Fisher & Paykel Holdings Inc. (USA)
Fisher & Paykel Healthcare K.K. (Japan)
Fisher & Paykel do Brazil Ltda (Brazil)

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

During the twelve months to 31 March 2006:

At the Annual Meeting of Shareholders held on 23 August 2005, Gary Paykel and Michael Smith 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 8700
Facsimile: +64-9-488 8787
Investor Enquiries: +64-9-488 8777
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
Investor Enquires: 1 300 855 080
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