



Fisher & Paykel
HEALTHCARE

Annual Report 2004

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Vision to Value

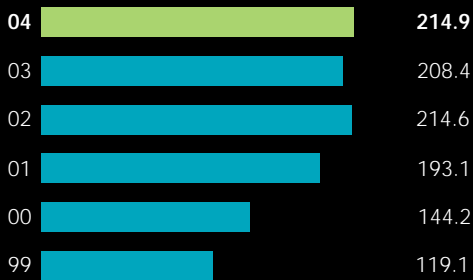
Fisher & Paykel Healthcare Corporation Limited increases value for our shareholders by profitably designing, developing, manufacturing, marketing and selling healthcare devices worldwide which improve patient care and outcomes.

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

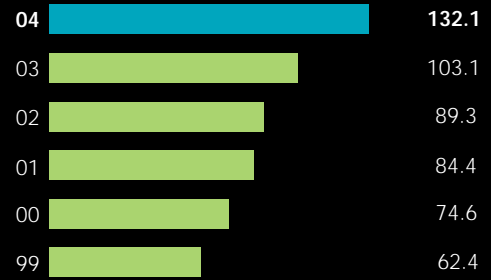
2004 Financial Highlights

OPERATING REVENUE FROM CONTINUING OPERATIONS

NZ \$ MILLIONS

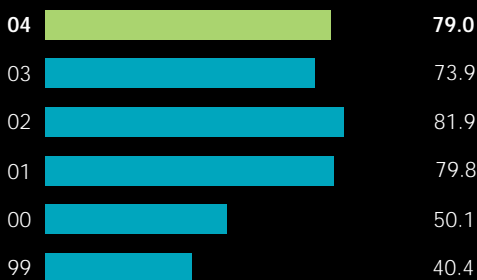


US \$ MILLIONS

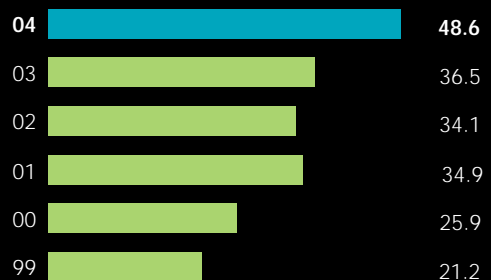


OPERATING PROFIT FROM CONTINUING OPERATIONS BEFORE ABNORMAL ITEMS

NZ \$ MILLIONS

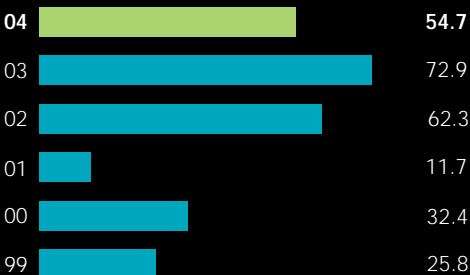


US \$ MILLIONS

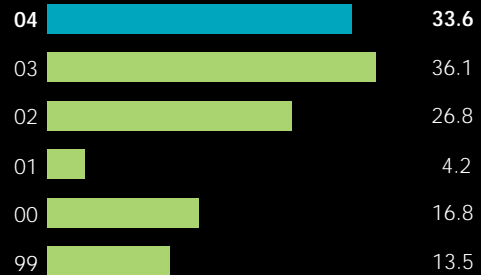


PROFIT FROM CONTINUING OPERATIONS AFTER TAXATION

NZ \$ MILLIONS



US \$ MILLIONS



2004 Financial Highlights

- Record operating revenue of NZ\$214.9 million

- Operating revenue up 28% to US\$132.1 million

- Increased operating profit of NZ\$79.0 million, up 7% over the prior year

- Profit after tax of NZ\$54.7 million

- Operating margin of 36.8% for the year

- Respiratory humidification product group revenue up 34% to US\$68.1 million

- OSA product group revenue up 17% to US\$49.1 million

- Neonatal and patient warming product group revenue up 63% to US\$9.8 million

- Pre-tax return on average shareholders' equity of 42%

- Research & development investment increased to 6.6% of revenue

- Total dividends of NZ 52 cents per share for the year

VISION

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

VALUES

Fundamental to our success are these basic values:

PATIENTS:

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

CUSTOMERS:

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

OUR PEOPLE:

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

QUALITY IMPROVEMENT:

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

SUPPLIERS:

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

SHAREHOLDERS:

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

PLANNING:

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

ENVIRONMENT:

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

SOCIETY:

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

Increasing value for shareholders



Gary Paykel - Chairman

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

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

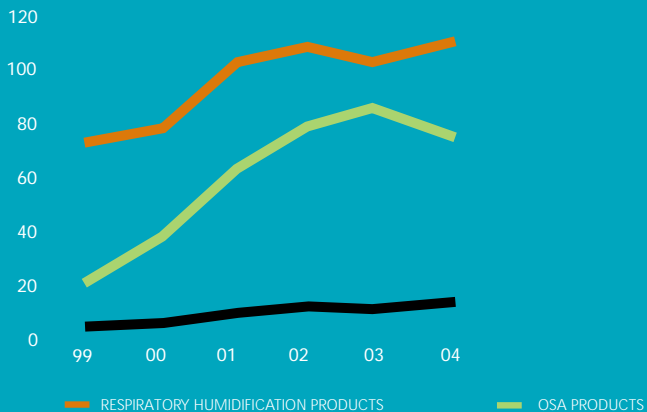
This positive performance enabled us to deliver to our shareholders increased total dividends for the financial year of NZ 52 cents, carrying full imputation credit. Non New Zealand resident shareholders also received supplementary dividends of NZ 9.18 cents per share.

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

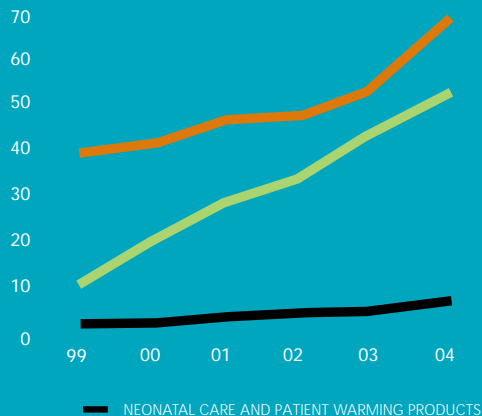
Each of our core product groups achieved excellent growth, with respiratory humidification product group revenue up 34% to US\$68 million, obstructive sleep apnea (OSA)

REVENUE BY PRODUCT GROUP

NZ \$ MILLIONS



US \$ MILLIONS



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

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

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

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

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

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

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

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

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

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



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

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

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

The Board and management were gratified by the confidence shown in the company by institutions following Fisher & Paykel Appliances Holdings Limited's decision to

sell its 19.34% shareholding in Fisher & Paykel Healthcare Corporation Limited. More than 40 existing and new institutional shareholders participated in the placement, which we consider a very positive outcome, and we welcome these shareholders to the Company.

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

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

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

Gary Paykel CNZM
Chairman