

OVERVIEW

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

HISTORICAL FINANCIAL PERFORMANCE

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

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

FINANCIAL YEAR ENDED 31 MARCH

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

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

FINANCIAL YEAR ENDED 31 MARCH

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

OPERATING REVENUE

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

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

Financial Commentary

FOR THE YEAR ENDED 31 MARCH 2004

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

FINANCIAL YEAR ENDED 31 MARCH

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

Sales of respiratory humidification products increased by approximately 34 percent in US dollar terms in the financial year ended 31 March 2004 from sales in the prior year. Excluding the effects of currency translations, sales of respiratory humidification products are estimated to have increased by approximately 18 percent in the financial year ended 31 March 2004. This increase was driven by strong market share gains in both adult and neonatal breathing circuits and an increasing move towards our MR850 humidifier technology. We also benefited from additional demand in the early part of the financial year due to the SARS outbreak.

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

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

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

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

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

FINANCIAL YEAR ENDED 31 MARCH

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

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

OPERATING EXPENSES

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

Cost of sales consists of manufacturing costs (primarily raw materials and labour), costs of distributed products, an allocation of the overhead costs of the New Zealand facility and freight costs.

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

Research and development activities are primarily conducted in New Zealand. Research and development expenses totalled NZ\$14.115 million for the year ended 31 March 2004 compared to NZ\$11.535 million in the previous financial year. The increase was attributable to increases in research and development personnel in connection with the expansion of product development activities for the respiratory humidification, OSA, and patient warming and neonatal care product groups. Research and development expenses represented 6.6 percent of total operating revenue for the financial year ended 31 March 2004.

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

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

GROSS PROFIT

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

OPERATING PROFIT

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

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

FOREIGN CURRENCY EXCHANGE PROFIT

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

LIQUIDITY AND CAPITAL RESOURCES

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

Financial Commentary

■ FOR THE YEAR ENDED 31 MARCH 2004

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

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

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