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AUDITORS' REPORT

to the shareholders of Fisher & Paykel Healthcare Corporation Limited

We have audited the financial statements on pages 35 to 90. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 42 to 51.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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 2010 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 providers of tax and other assurance 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 90:
 - (i) comply with generally accepted accounting practice in New Zealand;
 - (ii) comply with International Financial Reporting Standards; and
 - (ii) give a true and fair view of the financial position of the Company and Group as at 31 March 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 26 May 2010 and our unqualified opinion is expressed as at that date.

Chartered Accountants

Auckland

Income Statements

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
46,533	57,773	Operating revenue	503,322	458,717
		Cost of sales	(231,939)	(212,087)
46,533	57,773	Gross profit	271,383	246,630
172	-	Other income	4,269	3,000
(1,136)	(1,187)	Selling, general and administrative expenses	(137,541)	(118,929)
		Research and development expenses	(35,272)	(28,310)
45,569	56,586	Operating profit before financing costs	102,839	102,391
		Financing income	657	1,263
		Financing expense	(6,444)	(8,777)
		Exchange gain (loss) on foreign currency borrowings	9,763	(9,839)
-	-	Net financing income (expense)	3,976	(17,353)
45,569	56,586	Profit before tax	106,815	85,038
(461)	(135)	Tax expense	(35,184)	(22,805)
45,108	56,451	Profit after tax	71,631	62,233
		Basic earnings per share	14.0 cps	12.2 cps
		Diluted earnings per share	13.5 cps	11.8 cps
		Weighted average basic ordinary shares outstanding	511,251,159	509,492,237
		Weighted average diluted ordinary shares outstanding	529,793,292	527,363,056

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

Consolidated Statements of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2010

	SHARE CAPITAL	TREASURY SHARES	RETAINED EARNINGS	ASSET REVALUATION RESERVE	CASH FLOW HEDGE RESERVE -UNREALISED	CASH FLOW HEDGE RESERVE -REALISED	EMPLOYEE SHARE ENTITLEMENT RESERVE	EMPLOYEE SHARE OPTION RESERVE	TOTAL EQUITY
NOTES	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Balance at 31 March 2008	6,083	(2,436)	188,668	-	905	-	184	2,260	195,664
Total comprehensive income and expenses	-	-	62,233	10,850	(2,670)	-	-	-	70,413
Dividends paid	21	-	(63,175)	-	-	-	-	-	(63,175)
Issue of share capital	20	202	-	-	-	-	-	-	202
Movement in employee share entitlement reserve	21	-	-	-	-	-	133	-	133
Movement in employee share option reserve	21	-	-	-	-	-	-	837	837
Movement in treasury shares	21	-	164	-	-	-	-	-	164
Shares issued under share option schemes for employee services	20	5	-	-	-	-	-	-	5
Employee share scheme shares issued for employee services	20	58	-	-	-	-	-	-	58
Balance at 31 March 2009	6,348	(2,272)	187,726	10,850	(1,765)	-	317	3,097	204,301
Total comprehensive income and expenses	-	-	71,631	-	49,582	22,269	-	-	143,482
Dividends paid	21	-	(63,296)	-	-	-	-	-	(63,296)
Issue of share capital under dividend reinvestment plan	20	5,895	-	-	-	-	-	-	5,895
Issue of share capital	20	251	-	-	-	-	-	-	251
Movement in employee share entitlement reserve	21	-	-	-	-	-	(59)	-	(59)
Movement in employee share option reserve	21	-	-	-	-	-	-	(188)	(188)
Movement in treasury shares	21	-	50	-	-	-	-	-	50
Shares issued under share option schemes for employee services	20	1,724	-	-	-	-	-	-	1,724
Employee share scheme shares issued for employee services	20	1,004	-	-	-	-	-	-	1,004
Balance at 31 March 2010	15,222	(2,222)	196,061	10,850	47,817	22,269	258	2,909	293,164

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

Parent Statements of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2010

	NOTES	SHARE CAPITAL NZ\$000	TREASURY SHARES NZ\$000	RETAINED EARNINGS NZ\$000	EMPLOYEE SHARE ENTITLEMENT RESERVE NZ\$000	EMPLOYEE SHARE OPTION RESERVE NZ\$000	TOTAL EQUITY NZ\$000
Balance at 31 March 2008		6,083	(2,436)	62,642	184	2,260	68,733
Total comprehensive income and expenses		-	-	45,108	-	-	45,108
Dividends paid	21	-	-	(63,175)	-	-	(63,175)
Issue of share capital	20	202	-	-	-	-	202
Movement in employee share entitlement reserve	21	-	-	-	133	-	133
Movement in employee share option reserve	21	-	-	-	-	837	837
Movement in treasury shares	21	-	164	-	-	-	164
Shares issued under share option schemes for employee services	20	5	-	-	-	-	5
Employee share scheme shares issued for employee services	20	58	-	-	-	-	58
Balance at 31 March 2009		6,348	(2,272)	44,575	317	3,097	52,065
Total comprehensive income and expenses		-	-	56,451	-	-	56,451
Dividends paid	21	-	-	(63,296)	-	-	(63,296)
Issue of share capital under dividend reinvestment plan	20	5,895	-	-	-	-	5,895
Issue of share capital	20	251	-	-	-	-	251
Movement in employee share entitlement reserve	21	-	-	-	(59)	-	(59)
Movement in employee share option reserve	21	-	-	-	-	(188)	(188)
Movement in treasury shares	21	-	50	-	-	-	50
Shares issued under share option schemes for employee services	20	1,724	-	-	-	-	1,724
Employee share scheme shares issued for employee services	20	1,004	-	-	-	-	1,004
Balance at 31 March 2010		15,222	(2,222)	37,730	258	2,909	53,897

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

Balance Sheets

AS AT 31 MARCH 2010

PARENT			CONSOLIDATED		
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000	
		NOTES			
ASSETS					
Current assets					
		Cash and cash equivalents	8	6,891	5,465
40	44	Trade and other receivables	9	71,437	80,996
		Inventories	10	71,763	69,946
		Derivative financial instruments	11	27,672	7,566
2,710	4,724	Tax receivable	12	2,302	8,702
41,161	40,999	Intergroup advances	25		
43,911	45,767	Total current assets		180,065	172,675
Non-current assets					
		Property, plant and equipment	13	233,278	204,558
		Intangible assets	14	4,891	4,469
8,741	8,768	Investments in subsidiaries	15		
		Other receivables	9	1,617	1,853
		Derivative financial instruments	11	44,197	13,334
145	154	Deferred tax asset	16	11,011	16,848
52,797	54,689	Total assets		475,059	413,737
LIABILITIES					
Current liabilities					
		Interest-bearing liabilities	17	24,502	23,447
242	279	Trade and other payables	18	58,546	57,737
		Provisions	19	4,183	2,203
		Tax payable	12	9,432	593
		Derivative financial instruments	11	1,149	9,874
242	279	Total current liabilities		97,812	93,854
Non-current liabilities					
		Interest-bearing liabilities	17	59,610	97,510
		Provisions	19	1,694	1,160
490	513	Other payables	18	5,201	3,223
		Derivative financial instruments	11	2,361	13,689
		Deferred tax liability	16	15,217	-
732	792	Total liabilities		181,895	209,436

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

Statements of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		NOTES		
		CASH FLOWS FROM OPERATING ACTIVITIES		
		Receipts from customers	514,649	456,418
		Receipts from derivative financial instruments monetised	31,813	-
		Receipts from distribution agency termination agreement compensation	3,221	-
43,937	56,605	Dividends received		
2,596	1,168	Interest received	571	1,163
(1,185)	(1,155)	Payments to suppliers and employees	(383,144)	(363,436)
		Tax paid	(23,332)	(22,818)
		Interest paid	(6,329)	(9,262)
45,348	56,618	Net cash flows from operations	137,449	62,065
		CASH FLOWS (USED IN) INVESTING ACTIVITIES		
		Sales of property, plant and equipment	67	1
		Purchases of property, plant and equipment	(45,749)	(20,363)
		Purchases of intangible assets	(2,507)	(2,006)
		Net cash flows (used in) investing activities	(48,189)	(22,368)
		CASH FLOWS (USED IN) FINANCING ACTIVITIES		
		Employee share purchase schemes	498	605
186	6,985	Issue of share capital	6,985	186
		New borrowings	17,582	36,970
		Repayments of borrowings	(47,246)	(8,580)
20,768	4,491	Intercompany borrowings		
(63,175)	(63,296)	Dividends paid	(63,296)	(63,175)
(3,127)	(4,798)	Supplementary dividends paid to overseas shareholders	(4,798)	(3,127)
(45,348)	(56,618)	Net cash flows (used in) financing activities	(90,275)	(37,121)
		Net increase (decrease) in cash	(1,015)	2,576
		Opening cash	(202)	(3,294)
		Effect of foreign exchange rates	94	516
		Closing cash	(1,123)	(202)
		RECONCILIATION OF CLOSING CASH		
		Cash and cash equivalents	8	5,465
		Bank overdrafts	(8,014)	(5,667)
		Closing cash	(1,123)	(202)

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2010

1. General Information

Fisher & Paykel Healthcare Corporation Limited (the “Company” or “Parent”) together with its subsidiaries (the “Group”) is a leading designer, manufacturer and marketer of medical device products and systems for use in respiratory care, acute care and the treatment of obstructive sleep apnea. Products are sold in over 120 countries worldwide.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 15 Maurice Paykel Place, East Tamaki, Auckland.

These consolidated financial statements were approved for issue by the Board of Directors on 26 May 2010.

2. Summary of Significant Accounting Policies

These general-purpose financial statements for the year ended 31 March 2010 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements also comply with International Financial Reporting Standards (IFRS).

a. Basis of preparation of financial statements

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

The reporting currency used in the preparation of these consolidated financial statements is New Zealand dollars, rounded where necessary to the nearest thousand dollars.

Entities reporting

The financial statements are the consolidated financial statements of the Group, comprising the Company and its subsidiaries. The Company and its subsidiaries are designated as profit-oriented entities for financial reporting purposes. The financial statements of the Parent are for the Company as a separate legal entity. Where subsidiaries have a balance date other than 31 March (refer to Note 15) results for the year ended 31 March are included in the consolidated financial statements of the Group. Statutory audits are conducted for these subsidiaries at their respective balance dates.

Statutory base

The Company is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The Company is also listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX). The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, and the revaluation of land at fair value through equity.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The Directors regularly review all accounting policies and areas of judgement in presenting the financial statements.

Judgements

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. In the ordinary course of business there are some transactions for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determinations are finalised. Refer to further details in Notes 7, 12 and 16.

Estimates*Warranty*

The Group tests annually whether the warranty provision as disclosed in Note 19 and calculated in accordance with the accounting policy stated in Note 2 (t) is sufficient to meet future obligations. The calculation of the provision requires estimates.

Fair value of derivative financial instruments

The Group holds significant amounts of derivatives which are hedge accounted. The estimation of fair values is determined in accordance with the accounting policy stated in Note 2 (m).

b. Principles of consolidation**Subsidiaries**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at balance date and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Intercompany transactions and balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Investments

Investments in subsidiary companies are valued at cost in the Parent.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). For the purposes of NZ IFRS 8 the CODM is a group comprising the Board of Directors (which includes the Chief Executive Officer), Senior Vice-President - Products and Technology, Senior Vice-President - Sales and Marketing and Chief Financial Officer. This has been determined on the basis that it is this group which determines the allocation of the resources to segments and assesses their performance.

d. Foreign currency translation**Functional and presentation currency**

Items included in the financial statements of each of the subsidiaries are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The Group operates as one integrated business. The financial statements are presented in New Zealand dollars, which is the Company's and its subsidiaries' functional currency. The Company's and Group's presentation currency is New Zealand dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using either the exchange rates prevailing at the dates of the transactions or at rates that approximate the actual exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

e. Revenue recognition

Revenue includes the fair value for the sale of products, net of sales taxes and other indirect taxes, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Sale of 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.

Financing income

Financing income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

f. Goods and Services Tax (GST)

The Income Statements have been prepared so that all components are stated exclusive of GST. All items in the Balance Sheets are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced.

g. Current and deferred income tax

The tax expense or tax income for the period is the tax payable or receivable on the current period's taxable income based on the income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and changes to any unused tax losses.

Current tax balances are calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

h. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the period of the lease.

i. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

j. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within current interest-bearing liabilities on the Balance Sheet.

k. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade receivable balances are reviewed on an ongoing basis. Receivables known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between an asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement within selling, general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses in the Income Statement.

l. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes financing costs.

m. Derivatives

The Group generally hedge accounts derivative financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. The Group also documents their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the Statement of Comprehensive Income. Any ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated via other comprehensive income are recycled in the Income Statement in the period when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred via other comprehensive income are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. In the case of a hedging instrument sold any cumulative gain or loss is recorded in the Cash Flow Hedge Reserve – Realised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the Income Statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments may not qualify for hedge accounting and hedge accounting may not be adopted for certain derivative instruments. Changes in the fair value of these derivative instruments are recognised immediately in the Income Statement.

n. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets, except for those assets with maturities greater than 12 months after the balance sheet date. Derivatives that are designated as hedges can be classified as non-current if they are in a long term relationship.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those assets with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables in the Balance Sheet.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Income Statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value net of transaction costs and subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Income Statement within operating profit in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 9.

o. Property, plant and equipment

Land is measured at fair value, based on periodic but at least triennial valuations by external independent valuers less any impairment losses recognised after the date of the revaluation.

All other property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Buildings – structure	25 – 50 years
Buildings – fit-out and other	3 – 50 years
Leasehold improvements	2 – 20 years
Plant and equipment	3 – 15 years
Vehicles	5 years
Tooling	3 – 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with carrying amounts. These are recognised in the Income Statement.

Revaluations of land

Any revaluation increment is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

p. Intangible assets

Patents and trademarks

Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of patents and trademarks over their anticipated useful lives of 5 to 15 years. In the event of a patent being superseded, the unamortised costs are written off immediately to the Income Statement.

Software costs

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life of 3 to 10 years.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Separately recognised goodwill is not amortised, instead it is tested annually for impairment or immediately if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

q. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

r. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, and the difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date. Borrowing costs are expensed as incurred.

s. Financing expense

Financing expense comprises interest expense on interest-bearing liabilities calculated using the effective interest rate method, and other associated borrowing costs.

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, for which the commencement date for capitalisation is on or after 1 April 2009, as part of the cost of that asset.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

t. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

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.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

u. Share capital

Ordinary shares are classified as capital.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

v. Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Equity-settled share-based compensation

Employee option plans

The Employee Share Option Plans allow Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share option reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the options granted is measured using the Binomial Options Pricing Model, taking into account the terms and conditions upon which the options are granted. When options are exercised the amount in the share option reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital. When any vested options lapse, upon employee termination or unexercised options reaching maturity, the amount in the share option reserve relating to those options is also transferred to share capital.

Employee share plans

The Employee Share Ownership Plans allow Group employees to acquire shares of the Company. The fair value of shares granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share entitlement reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the shares granted has been assessed as being equal to the discount provided on issue of the shares.

Interest-free loans are provided to employees in some jurisdictions to assist the employees to purchase the shares. The fair value of the interest-free component of the loan (i.e. the benefit the employee receives) is recognised as an employee expense in the Income Statement with a corresponding financing income amount in the Income Statement. The fair value is measured at grant date and spread over the vesting periods. The fair value of the interest-free loan has been assessed by calculating the benefit provided to employees by discounting the payments on the loan at the estimated pre-tax financing rate of the employees.

Superannuation plans

Companies within the Group contribute to defined benefit and defined contribution superannuation plans for the benefit of all employees. Defined benefit superannuation plans provide defined lump sum benefits based on years of service and final average salary. Defined contribution plans receive fixed contributions from the Group, and the Group's legal and constructive obligation is limited to these contributions.

Defined benefit

A liability or asset in respect of defined benefit superannuation plans is recognised in the Balance Sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund as at the reporting date, calculated by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with maturity and currency that match, as closely as possible, the estimated future cash outflows. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in retained earnings as incurred.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the entity and are part of the provision of the existing benefit obligation are taken into account in measuring the net liability or asset.

Defined contribution

Contributions to defined contribution superannuation plans are recognised as an expense in the Income Statement as they become payable.

w. Reserves

Nature and purpose of reserves

(i) Asset revaluation reserve

Refer to Note 2(o)

(ii) Cash flow hedge reserve - unrealised

The cash flow hedge reserve - unrealised is used to record gains or losses on hedging instruments in forward foreign currency cash flow hedges that are recognised directly in equity. Amounts are recognised in profit or loss when the associated hedged transactions affect profit or loss.

(iii) Cash flow hedge reserve - realised

The cash flow hedge reserve - realised is used to record gains or losses on hedging instruments in forward foreign currency cash flow hedges that have been closed out (monetised) and are recognised directly in equity while the cash flow being hedged remains. Amounts are recognised in profit or loss when the associated hedged transactions affect profit or loss.

(iv) Employee share entitlement reserve

The employee share entitlement reserve is used to recognise the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee.

(v) Employee share option reserve

The employee share option reserve is used to recognise the fair value of options granted but not exercised or lapsed. Amounts are transferred to share capital when the vested options are exercised by the employee or lapse upon expiry.

(vi) Treasury shares

Treasury shares is used to recognise those shares held and controlled by Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited.

x. Dividends

Provision is made for the amount of any dividend declared and approved on or before the balance date but not distributed at balance date.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

y. 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.

z. Research & development

Research expenditure is expensed as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets only when all the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated that the product will generate future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured and is material.

Directly attributable costs capitalised as part of the product would include employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs recognised as an asset are amortised over their estimated useful lives.

aa. Advertising and sales promotion costs

All advertising and sales promotion costs are expensed as incurred.

ab. Statements of cash flows

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

- (i) Cash comprises cash and bank balances.
- (ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and investments.
- (iii) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. 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.

Cash flows from short-term borrowings, being durations of 3 months or less, are disclosed net, due to short-term maturities and volume of transactions involved.

ac. Financial guarantee contracts

A financial guarantee contract is a contract that requires a company within the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. Financial guarantees are subsequently measured at the greater of the initial recognition amount less amounts recognised as income or the estimated amount expected to have to be paid to a holder for a loss incurred.

ad. Changes to accounting policies

There have been no changes to accounting policies.

ae. Standards, interpretations and amendments to published standards

The following new standards and amendments to standards are mandatory and are required to be applied for the first time for financial years beginning on or after 1 January 2009.

- **NZ IAS 1: Presentation of Financial Statements (revised)**

The revised standard requires 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present two statements; an income statement and a statement of comprehensive income.

- **NZ IFRS 8: Operating Segments**

NZ IFRS 8 replaces NZ IAS 14 Segment reporting. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Application of NZ IFRS 8 did not identify any new operating segments. Refer to Note 2(c) for further information.

- **NZ IFRS 7: Financial instruments – Disclosures (amendment)**

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2),
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

This change in accounting standard results in additional disclosure only (refer to Note 3a(iv)).

- **NZ IAS 23: Borrowing Costs**

In respect of borrowing costs relating to qualifying assets (assets that take a substantial period of time to get ready for their intended use) for which the commencement date for capitalisation is on or after 1 April 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group has previously recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007). In accordance with the transition provisions of the standard, comparative figures have not been restated as no qualifying assets were constructed. The change in accounting policy had no material impact on earnings per share.

The following are standards, amendments and interpretations to existing standards which are applicable to the Group but are not yet effective and have not been early adopted by the Group:

- **NZ IFRS 3: Business Combinations (Revised) and NZ IAS 27: Consolidated and Separate Financial Statements (Revised)**

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Income Statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply NZ IFRS 3 (revised) prospectively to all business combinations from 1 April 2010.

- **NZ IFRS 9: Financial Instruments (effective from 1 January 2013)**

The standard replaces part of NZ IAS 39 and establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The Group is currently in the process of evaluating the potential effect of this standard.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and options, and interest rate swaps and swaptions to manage certain risk exposures.

The Board of Directors has approved policies and guidelines for the Group that identify and evaluate risks and authorise various financial instruments to manage financial risks. These policies and guidelines are reviewed regularly.

The Parent is not directly exposed to any significant financial risk.

a. Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, European Union euro, British pound, Australian dollar, Japanese yen, Canadian dollar and Mexican peso.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Refer to Notes 9 and 18 for receivables and payables denominated in foreign currencies.

The purpose of the Group's foreign currency risk management activities is to protect the Group 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 Group enters into foreign currency option contracts and forward foreign currency contracts within policy parameters to manage the risk associated with anticipated sales or costs denominated principally in US dollars, European Union euros, British pounds, Australian dollars, Japanese yen, Canadian dollars and Mexican pesos. 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.

Foreign exchange contracts and options in relation to sales are designated at the Group level as hedges of foreign exchange risk on specific forecast foreign currency denominated sales.

Major capital expenditure in foreign currency may be hedged with forward exchange contracts and options which may be designated as hedges.

Refer to Note 11 for notional principal amounts and valuations of foreign exchange contracts and options outstanding at balance date. A sensitivity analysis of foreign exchange risk on the Group's financial assets and liabilities is provided in the table at Note 3a(v).

(ii) Price risk

The Group has no material exposure to price risk.

(iii) Interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn under bank debt facilities. When deemed appropriate, the Group manages floating interest rate risk by using floating-to-fixed interest rate swaps and interest rate swaptions. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Interest rate swaptions give the right, but not the obligation, to enter into an interest rate swap at a fixed rate at a future date. Under the Group Treasury policy, the mix between economically fixed and floating debt is reviewed on a regular basis. Interest rate swaps are accounted for as cash flow hedges and management may also designate interest rate swaptions as cash flow hedges.

Refer to Note 11 for notional principal amounts and valuations of interest rate swaps and swaptions outstanding at balance date. A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table at Note 3a(v). Refer to Note 17 for further details of the Group's borrowings.

(iv) Fair value

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date.

The fair values of derivatives that are not traded in an active market (for example, over the counter derivatives) is determined using appropriate valuation techniques. The fair value of forward exchange contracts, swaps and options are determined by mark to market valuations using market quoted information at the balance date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is

calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The only financial instruments held by the Group that are measured at fair value are over the counter derivatives. These derivatives have all been determined to be within level 2 of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable (refer to Note to 2(m)).

(v) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk. A sensitivity of +/-15% for foreign exchange risk has been selected (2009: +/-15%). The Group's primary foreign currency exposure is the New Zealand dollar versus the US dollar, with other currencies as discussed above forming the balance of the exposure. The Group believes that an overall sensitivity of +/-15% is reasonably possible given the exchange rate volatility observed on a historical basis for the preceding 5 year period with a higher weighting given to exchange rate volatility over the preceding year and the range of market expectations for potential future movements. A sensitivity of +/-1% has been selected for interest rate risk. This sensitivity is based on reasonably possible changes over a financial year using the observed range of historical data for the preceding 5 year period.

Amounts are shown net of income tax. All variables other than the applicable interest rates and exchange rates are held constant. The tables assume a 15% (2009: 15%) movement in the New Zealand dollar against all currencies.

Consolidated 2010

	CARRYING AMOUNT NZ\$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		-1%		+1%		-15%		+15%	
		PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000
Derivative Financial Instruments	68,359	(280)	(2,590)	280	2,311	(2,007)	(41,796)	1,483	31,064
Other Financial Assets:									
Cash and cash equivalents	6,891	(2)	-	8	-	783	-	(665)	-
Trade receivables	62,726	-	-	-	-	7,341	-	(6,240)	-
Other Financial Liabilities:									
Trade and other payables	41,745	-	-	-	-	(2,184)	-	2,570	-
Interest-bearing liabilities	84,112	560	-	(560)	-	(5,040)	-	5,930	-
Total Increase (decrease)		278	(2,590)	(272)	2,311	(1,107)	(41,796)	3,078	31,064

Consolidated 2009

	CARRYING AMOUNT NZ\$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		-1%		+1%		-15%		+15%	
		PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000
Derivative Financial Instruments	(2,663)	-	(3,199)	-	3,005	(3,523)	(71,839)	2,355	54,726
Other Financial Assets:									
Cash and cash equivalents	5,465	(3)	-	8	-	582	-	(582)	-
Trade receivables	75,357	-	-	-	-	8,169	-	(8,169)	-
Other Financial Liabilities:									
Trade and other payables	41,374	(161)	-	188	-	(2,930)	-	2,930	-
Interest-bearing liabilities	120,957	816	-	(816)	-	(5,987)	-	5,987	-
Total Increase (decrease)		652	(3,199)	(620)	3,005	(3,689)	(71,839)	2,521	54,726

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

Parent 2010

	CARRYING AMOUNT NZ\$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		-1%		+1%		-15%		+15%	
		PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000
Other Financial Assets:									
Intergroup advances	40,999	(410)	-	410	-	-	-	-	-
Total increase (decrease)		(410)	-	410	-	-	-	-	-

Parent 2009

	CARRYING AMOUNT NZ\$000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		-1%		+1%		-15%		+15%	
		PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000	PROFIT NZ\$000	EQUITY NZ\$000
Other Financial Assets:									
Intergroup advances	41,161	(412)	-	412	-	-	-	-	-
Total increase (decrease)		(412)	-	412	-	-	-	-	-

For the effect on profit a positive number represents an increase to net profit after tax and a negative number represents a decrease to net profit after tax. For the effect on equity a positive number represents an increase in equity and a negative number represents a decrease in equity.

b. Credit risk

Credit risk is managed on a Group basis. Other than only operating in the medical devices industry, the Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. If customers are independently rated, these ratings are used. If there is no independent rating, management assesses the credit quality of the customer taking into account the customer's financial position, past experience and other factors. The Group holds no collateral over its trade receivables.

Derivative counterparties, cash transactions and cash at banks are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution according to the credit rating of the financial institution concerned.

The Group's exposure to credit risk for trade receivables as at 31 March by geographic region is as follows:

	2010 NZ\$000	2009 NZ\$000
North America	28,803	33,716
Europe	22,241	28,380
Asia Pacific	10,280	8,866
Other	2,358	5,453
Provision for doubtful trade receivables	(956)	(1,058)
Total	62,726	75,357

The maximum potential exposure to credit risk is:

	2010 NZ\$000	2009 NZ\$000
Cash and cash equivalents	6,891	5,465
Trade receivables	62,726	75,357
Derivative financial instruments	71,869	20,900
Total	141,486	101,722

The Parent's exposure to credit risk relates to inter-group balances only. See Notes 9 and 11 for further disclosure on credit risk.

c. Liquidity risk

Management monitors rolling forecasts of the Group's liquidity position on the basis of expected cash flow. See Note 17 for details of available facilities.

The Parent's liquidity risk exposure is not significant.

The tables below analyse the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	LESS THAN 1 YEAR NZ\$000	BETWEEN 1 AND 2 YEARS NZ\$000	BETWEEN 2 AND 5 YEARS NZ\$000	OVER 5 YEARS NZ\$000	TOTAL NZ\$000
AS AT 31 MARCH 2010					
Bank overdrafts	8,296	-	-	-	8,296
Trade and other payables	39,534	-	-	-	39,534
Borrowings	20,152	2,929	59,997	-	83,078

	LESS THAN 1 YEAR NZ\$000	BETWEEN 1 AND 2 YEARS NZ\$000	BETWEEN 2 AND 5 YEARS NZ\$000	OVER 5 YEARS NZ\$000	TOTAL NZ\$000
AS AT 31 MARCH 2009					
Bank overdrafts	5,905	-	-	-	5,905
Trade and other payables	40,885	489	-	-	41,374
Borrowings	23,097	42,434	64,911	-	130,442

The Group enters into forward exchange contracts to manage the risk associated with foreign currency denominated receivables and also to manage the purchase of foreign currency denominated inventory and capital items. The Group enters into interest rate swaps to manage interest rate risk.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

The tables below analyse the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. They are expected to occur and impact the Income Statement at various dates between balance date and the following 10 years.

	LESS THAN 1 YEAR NZ\$000	BETWEEN 1 AND 2 YEARS NZ\$000	BETWEEN 2 AND 5 YEARS NZ\$000	OVER 5 YEARS NZ\$000	TOTAL NZ\$000	CARRYING AMOUNT NZ\$000
AT 31 MARCH 2010						
Gross Settled Derivatives						
<i>Forward foreign exchange contracts</i>						
Inflow	152,816	58,021	250,641	14,329	475,807	
Outflow	(125,728)	(50,635)	(210,351)	(11,783)	(398,497)	
Net inflow	27,088	7,386	40,290	2,546	77,310	70,574
<i>Foreign currency option contracts*</i>						
Inflow						
Outflow						
Net inflow	-	-	-	-	-	-
Net settled derivatives						
<i>Interest rate swaps**</i>						
Net inflow (outflow)	(2,182)	(1,278)	(414)	1,352	(2,522)	(2,215)

	LESS THAN 1 YEAR NZ\$000	BETWEEN 1 AND 2 YEARS NZ\$000	BETWEEN 2 AND 5 YEARS NZ\$000	OVER 5 YEARS NZ\$000	TOTAL NZ\$000	CARRYING AMOUNT NZ\$000
AT 31 MARCH 2009						
Gross Settled Derivatives						
<i>Forward foreign exchange contracts</i>						
Inflow	162,723	108,440	341,557	22,424	635,144	
Outflow	(161,069)	(105,189)	(341,070)	(22,448)	(629,776)	
Net inflow (outflow)	1,654	3,251	487	(24)	5,368	2,030
<i>Foreign currency option contracts*</i>						
Inflow						
Outflow						
Net inflow	-	-	-	-	-	-
Net settled derivatives						
<i>Interest rate swaps**</i>						
Net (outflow)	(1,440)	(1,034)	(1,905)	(959)	(5,338)	(4,693)

* There are no contractual cash flows in relation to foreign currency option contracts.

** The amounts expected to be receivable in relation to the interest rate swaps have been estimated using forward interest rates applicable at the reporting date.

d. Fair value estimation

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to their short-term nature. The fair value of financial instruments for disclosure and recognition purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value estimates are compared to valuations prepared by the respective counterparties. Refer to Note 3(a)(iv) for further information on fair value estimation.

e. Capital risk management

The main objective of capital risk management is to ensure the Group operates as a going concern, meets debts as they fall due, maintains the best possible capital structure, and manages the cost of capital. Group capital consists of share capital, other reserves and retained earnings. To maintain or alter the capital structure the Group has the ability to review the size of the dividends paid to shareholders, return capital or issue new shares, reduce or increase debt or sell assets. There has been no change in Group policies or objectives in relation to capital risk management since the prior year.

There are a number of external bank covenants in place relating to debt facilities. These covenants are calculated monthly and reported to the banks semi-annually. The principal covenants relating to capital management are the interest cover ratio, the net tangible assets minimum requirement and total tangible assets ratio (refer to Note 17 for a listing of the principal covenants). The consequences of a breach of these covenants would depend on the nature of the breach, but could range from an instigation of an event of review, to a demand for repayment. There have been no breaches of these covenants or events of review for the current or prior period.

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		4. Operating Revenue		
		Sales revenue	474,755	485,516
		Foreign exchange gain (loss) on hedged sales	28,567	(26,799)
43,937	56,605	Dividends		
2,596	1,168	Interest income on intergroup advances		
46,533	57,773	Total operating revenue	503,322	458,717

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		5. Net Operating Profit		
45,569	56,586	Profit before tax	106,815	85,038
		After charging the following specific expenses:		
		Auditors' fees:		
		Statutory audit	612	597
		Auditor's half year review	31	30
		Accounting standards advice	17	29
		Tax compliance fees	56	80
		Total auditors' fees	716	736
		Donations	11	21
		Depreciation:		
		Buildings - structure	1,009	1,327
		Buildings - fit-out and other	4,449	4,089
		Leasehold improvements	3	160
		Plant and equipment	10,053	9,800
		Total depreciation	15,514	15,376
		Inventory obsolescence	829	1,421
		Rental expense	3,955	3,012
		Operating leases	3,833	3,790
		Amortisation:		
		Patents and trademarks	1,178	995
		Software	758	931
		Total amortisation	1,936	1,926
		Trade receivables written off	303	562
		Movement in provision for doubtful trade receivables	(102)	298
687	657	Directors' fees paid	657	687
133	-	Directors' retirement fee paid	-	133
(88)	24	Movement in accrual for directors' retirement fees	24	(88)
		After crediting the following specific income:		
		Research and development tax credit	1,048	3,000
		Distribution agency termination agreement compensation	3,221	-
172	-	Gain on transfer of subsidiary company shares		
172	-		4,269	3,000

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		6. Employee Benefits		
		Wages and salaries	158,332	144,946
		Other employment costs	8,355	7,900
		Employer contributions to defined contribution superannuation plans inclusive of tax	4,920	5,032
		Employer contributions to defined benefit superannuation plans inclusive of tax	6	14
		Movement in liability for long service leave	710	(22)
		Employee share purchase plans – discount on issue	142	154
		Employee share purchase plans – interest free loan	66	81
		Employee stock purchase plans	44	39
		Employee share option plans	772	845
			173,347	158,989

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		7. Tax Expense		
45,569	56,586	Profit before tax	106,815	85,038
13,671	16,976	Tax expense at the New Zealand rate of 30% (2009: 30%)	32,045	25,511
		Adjustments to taxation for:		
		Research and development tax credit	(315)	(900)
(13,233)	(16,981)	Non-assessable income	(81)	(132)
		Effect of foreign currency translations	2,504	(2,786)
11	73	Non-deductible expenses	357	476
		Foreign rates other than 30% (2009: 30%)	604	1,445
12	67	Other	70	(809)
461	135	Tax expense	35,184	22,805
		This is represented by:		
433	144	Current tax	35,379	29,792
28	(9)	Deferred tax	(195)	(6,987)
461	135	Tax expense	35,184	22,805
1.0%	0.2%	Effective tax rate	32.9%	26.8%

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT		CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000	2010 NZ\$000	2009 NZ\$000
8. Cash and Cash Equivalents			
Cash at bank - New Zealand dollar balances		227	147
Cash at bank - foreign currency balances		6,564	5,250
Cash on hand		100	68
		6,891	5,465
Foreign currency risk			
The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:			
New Zealand dollars		280	228
United States dollars		1,433	1,056
European Union euros		2,315	2,351
Australian dollars		1	6
British pounds		155	64
Indian rupees		660	611
Chinese yuan		721	453
Japanese yen		604	139
Danish krone		294	267
Other currencies		428	290
		6,891	5,465

Fair value

Carrying amounts of cash and cash equivalents are equal to their fair values.

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		9. Trade and Other Receivables		
		CURRENT		
		Trade receivables	63,682	76,415
		Less provision for doubtful trade receivables	(956)	(1,058)
			62,726	75,357
40	44	Other receivables	8,711	5,639
40	44		71,437	80,996
		NON-CURRENT		
		Other receivables	1,617	1,853
			1,617	1,853
		Foreign currency risk		
		The carrying amounts of the Group's trade receivables are denominated in the following currencies:		
		New Zealand dollars	729	756
		United States dollars	32,622	41,195
		European Union euros	18,189	23,351
		Australian dollars	4,119	4,165
		British pounds	2,100	2,792
		Canadian dollars	3,584	3,316
		Japanese yen	767	-
		Taiwanese dollars	557	-
		Other currencies	1,015	840
			63,682	76,415

The Parent has no trade receivables.

Ageing of trade receivables beyond normal terms

The ageing analysis of consolidated trade receivables beyond normal terms is as follows:

	1-30 DAYS NZ\$000	31-60 DAYS NZ\$000	61-90 DAYS NZ\$000	90+ DAYS NZ\$000	TOTAL NZ\$000
Past due but not considered impaired					
31 March 2010	9,810	1,629	38	75	11,552
31 March 2009	11,626	1,537	681	245	14,089
Past due and considered impaired					
31 March 2010	81	446	298	131	956
31 March 2009	75	83	38	862	1,058

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		9. Trade and Other Receivables (continued)		
		Movements in the provision for doubtful trade receivables are as follows:		
		Balance at beginning of the year	1,058	760
		Additional provision recognised	82	204
		Foreign exchange translation	(170)	217
		Trade receivables written off during the year as uncollectable	(14)	(123)
		Balance at end of the year	956	1,058

The creation and release of the provision for impaired trade receivables has been included in Selling, General and Administrative expense in the Income Statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The individually impaired trade receivables relate mainly to customers which are in difficult economic situations.

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		Customer and receivable concentration		
		Five largest customers' proportion of the Group's:		
		Operating revenue	21.6%	26.5%
		Trade receivables	15.7%	17.1%

There is no history of default in relation to these customers.

Fair value

Carrying amounts of trade receivables are equivalent to their fair values.

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		10. Inventories		
		Materials	17,726	19,013
		Finished products	57,196	55,498
		Provision for obsolescence	(3,159)	(4,565)
			71,763	69,946

Inventory provisions are provided at year end for stock obsolescence.

	CONSOLIDATED			
	2010		2009	
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
11. Derivative Financial Instruments				
CURRENT				
Foreign currency forward exchange contracts - cash flow hedges	26,771	186	6,503	4,422
Foreign currency forward exchange contracts - not hedge accounted	67	2	42	185
Foreign currency option contracts - cash flow hedges	823	3	948	3,768
Foreign currency option contracts - time value	-	13	-	-
Interest rate swaps - cash flow hedges	11	945	73	1,499
	27,672	1,149	7,566	9,874
NON-CURRENT				
Foreign currency forward exchange contracts - cash flow hedges	42,955	1	12,996	9,459
Foreign currency option contracts - cash flow hedges	163	-	-	625
Interest rate swaps - cash flow hedges	1,079	2,360	338	3,605
	44,197	2,361	13,334	13,689

Refer to Note 3(a)(iv) for information on the calculation of fair values.

The Parent has no derivative financial instruments.

Cash flows relating to cash flow hedges are expected to occur as follows:

	AS AT 31 MARCH 2010			
	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
Foreign exchange derivative instruments inflows	133,215	58,021	250,641	14,329
Foreign exchange derivative instruments outflows	(106,173)	(50,635)	(210,351)	(11,783)
Interest rate derivative instruments net inflows (outflows)	(2,182)	(1,278)	(414)	1,352
AS AT 31 MARCH 2009				
	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
Foreign exchange derivative instruments inflows	143,266	108,440	341,557	22,424
Foreign exchange derivative instruments outflows	(141,384)	(105,189)	(341,070)	(22,448)
Interest rate derivative instruments net (outflows)	(1,440)	(1,034)	(1,905)	(959)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

11. Derivative Financial Instruments (continued)

Contractual amounts of forward exchange and option contracts outstanding were as follows:

	2010 NZ\$000	2009 NZ\$000
Purchase commitments forward exchange contracts	9,519	508
Sale commitments forward exchange contracts	446,525	615,687
Foreign currency borrowing forward exchange contracts	17,716	19,262
Collar option contracts - NZD call options purchased (i)	12,120	77,552
Collar option contracts - NZD put options sold (i)	13,116	86,384

(i) Foreign currency contractual amounts are equal.

Foreign currency contractual amounts hedged in relation to sales commitments were as follows:

	2010 FOREIGN CURRENCY 000s	2009 FOREIGN CURRENCY 000s
United States dollars	US\$69,500	US\$201,000
European Union euros	€109,170	€103,260
Australian dollars	A\$9,900	A\$3,000
British pounds	£220	£2,100
Canadian dollars	C\$15,525	C\$11,550
Swiss francs	SFr 0	SFr 1,325
Swedish kronor	kr 0	kr 3,000
Japanese yen	¥1,100,000	¥0

As at 31 March 2010 forward exchange contracts with foreign currency contractual amounts totalling US\$66 million had been monetised (closed out) with the NZ dollar benefit of \$31,813,000 (\$22,269,000 after tax) held within Cash Flow Hedge Reserve – Realised, on the Balance Sheet. The cash was applied to reduce interest-bearing liabilities. The benefit will remain within Cash Flow Hedge Reserve – Realised, until the original maturity dates, during the 2012-2014 financial years, of the forward exchange contracts monetised.

Foreign currency contractual amounts hedged in relation to purchase commitments were as follows:

	2010 FOREIGN CURRENCY 000s	2009 FOREIGN CURRENCY 000s
European Union euros	€0	€100
Japanese yen	¥15,000	¥24,000
Mexican pesos	Mex\$90,000	Mex\$0

Contractual amounts of interest rate derivative contracts outstanding were as follows:

	2010 NZ\$000	2009 NZ\$000
Interest rate swaps	88,700	99,151

Interest rate swaps will expire from financial years 2011 through to 2019.

Credit Risk

The Group's exposure to credit risk from derivative financial instruments is limited because it does not expect non-performance of the obligation contained therein due to the credit rating of the financial institutions concerned. The Group does not require collateral or other security to support derivative financial instruments.

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		12. Current Tax		
		Balance at beginning of the year		
		Tax payable	(593)	(640)
3,602	2,710	Tax receivable	8,702	9,968
3,602	2,710		8,109	9,328
(433)	(144)	Current portion of tax expense	(35,379)	(29,792)
		Tax payable on monetised financial instruments	(9,544)	-
		Tax paid	23,447	22,818
		Research and development tax credit	1,048	3,000
(473)	2,088	Supplementary dividend tax credit	4,798	3,127
14	70	Other movements	391	(372)
(892)	2,014		(15,239)	(1,219)
		Balance at end of the year		
		Tax payable	(9,432)	(593)
2,710	4,724	Tax receivable	2,302	8,702
2,710	4,724		(7,130)	8,109

A pre-tax gain of \$31,813,000 was realised from US dollar forward exchange contracts monetised during the 2010 financial year. This gave rise to a tax liability of \$9,544,000. The tax expense will be recorded in the Income Statement during the 2012 - 2014 financial years, based on the original maturity date of the forward exchange contracts.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

13. Property, Plant and Equipment

	LAND COST	LAND REVALUATION	BUILDINGS STRUCTURE	FIT OUT AND OTHER	LEASEHOLD IMPROVE- MENTS	PLANT & EQUIPMENT	CAPITAL PROJECTS BUILDINGS	PROJECTS OTHER	TOTAL
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Cost and revaluation									
Balance at 31 March 2008	59,200	-	49,475	52,868	857	77,192	799	8,762	249,153
Additions	-	10,850	-	-	158	1,947	841	19,669	33,465
Transfers	-	-	-	654	-	10,536	(654)	(10,536)	-
Disposals	-	-	-	(123)	(17)	(2,687)	-	-	(2,827)
Balance at 31 March 2009	59,200	10,850	49,475	53,399	998	86,988	986	17,895	279,791
Additions	-	-	-	5,412	366	14,282	2,797	21,441	44,298
Transfers	-	-	-	1,703	-	19,385	(1,703)	(19,385)	-
Disposals	-	-	-	-	-	(1,624)	-	-	(1,624)
Balance at 31 March 2010	59,200	10,850	49,475	60,514	1,364	119,031	2,080	19,951	322,465
Depreciation and impairment losses									
Balance at 31 March 2008	-	-	3,507	17,693	521	40,943	-	-	62,664
Depreciation charge for the year	-	-	1,327	4,089	160	9,800	-	-	15,376
Disposals	-	-	-	(123)	(20)	(2,664)	-	-	(2,807)
Balance at 31 March 2009	-	-	4,834	21,659	661	48,079	-	-	75,233
Depreciation charge for the year	-	-	1,009	4,449	3	10,053	-	-	15,514
Disposals	-	-	-	-	-	(1,560)	-	-	(1,560)
Balance at 31 March 2010	-	-	5,843	26,108	664	56,572	-	-	89,187
Carrying amounts									
At 31 March 2008	59,200	-	45,968	35,175	336	36,249	799	8,762	186,489
At 31 March 2009	59,200	10,850	44,641	31,740	337	38,909	986	17,895	204,558
At 31 March 2010	59,200	10,850	43,632	34,406	700	62,459	2,080	19,951	233,278

The independent valuation of land and buildings, excluding capital projects and leasehold improvements, by Darroch Ltd as at 31 March 2010 was \$148.100 million (2009: \$150.700 million). The Parent holds no property, plant and equipment.

Land revaluation

Land, comprising 42.0238 hectares at East Tamaki, Auckland was revalued with an effective date of 31 March 2009. The independent valuers used were DTZ New Zealand Ltd. The valuation was made as at 31 March 2009 on the basis of recent market transactions on arms length terms, with reference to the land's best use and highest value.

14. Intangible Assets

	SOFTWARE NZ\$000	PATENTS & TRADEMARKS & APPLICATIONS NZ\$000	GOODWILL NZ\$000	TOTAL NZ\$000
Cost				
Balance at 31 March 2008	5,409	6,366	3,853	15,628
Additions	726	1,382	-	2,108
Disposals	(6)	(23)	-	(29)
Balance at 31 March 2009	6,129	7,725	3,853	17,707
Additions	989	1,369	-	2,358
Disposals	(9)	-	-	(9)
Balance at 31 March 2010	7,109	9,094	3,853	20,056
Amortisation and impairment losses				
Balance at 31 March 2008	3,932	4,586	2,823	11,341
Amortisation for the year	931	995	-	1,926
Disposals	(6)	(23)	-	(29)
Balance at 31 March 2009	4,857	5,558	2,823	13,238
Amortisation for the year	758	1,178	-	1,936
Disposals	(9)	-	-	(9)
Balance at 31 March 2010	5,606	6,736	2,823	15,165
Carrying amounts				
At 31 March 2008	1,477	1,780	1,030	4,287
At 31 March 2009	1,272	2,167	1,030	4,469
At 31 March 2010	1,503	2,358	1,030	4,891

There are no individually material intangible assets. The Parent holds no intangible assets.

Impairment test for goodwill

Goodwill relates to the acquisition of Fisher & Paykel Healthcare GmbH & Co KG, which is the cash generating unit to which the total amount of goodwill is allocated. The recoverable amount is based on a value-in-use calculation. That calculation uses cash flow projections based on budgets approved by the Board to March 2010, and a pre-tax discount rate of 10.2% (2009: 9.6%). Cash flows beyond March 2010 have been extrapolated using a constant growth rate of 10% (2009: 10%) to March 2019, which is conservative when compared to the compound annual growth rate of 11.8% (2009: 12.9%) over the past 5 years, and a terminal growth rate of 2% (2009: 2%) beyond March 2019. The calculation supports the carrying amount of the recorded goodwill. The Board believes that any reasonably possible change in the key assumptions used in the calculation would not cause the carrying amount to exceed its recoverable amount.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT		
2009	2010	
NZ\$000	NZ\$000	
8,741	8,768	15. Investments in Subsidiaries
		Investments in subsidiaries

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

SUBSIDIARIES	COUNTRY OF INCORPORATION	INTEREST HELD BY GROUP		PRINCIPAL ACTIVITIES
		2010	2009	
* 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%	Distribution of Healthcare Products
* Fisher & Paykel Healthcare Treasury Limited	NZ	100%	100%	Treasury Management
Fisher & Paykel Healthcare (Guangzhou) Limited	China	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited	NZ	100%	100%	Employee Share Purchase Trustee Company
Fisher & Paykel Healthcare AB	Sweden	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare Asia Limited	NZ	100%	100%	Non-Trading Holding Company
Fisher & Paykel Healthcare Asia Investments Limited	NZ	100%	100%	Non-Trading Holding Company
Fisher & Paykel Healthcare India Private Limited	India	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare Limited	Hong Kong	100%	100%	Marketing Support
Fisher & Paykel Healthcare Americas Investments Limited	NZ	100%	100%	Non-Trading Holding Company
Fisher & Paykel Healthcare S.A. de C.V.	Mexico	100%	100%	Non-Trading Holding Company
Fisher Paykel Saglik Urunleri Ticaret Limited Sirketi	Turkey	100%	0%	Distribution of Healthcare Products
Fisher & Paykel Healthcare Limited	Canada	100%	0%	Distribution of Healthcare Products

All subsidiaries have a balance date of 31 March with the exception of Fisher & Paykel do Brasil Ltda and Fisher & Paykel Healthcare (Guangzhou) Limited which have a balance date of 31 December for statutory compliance purposes.

* Fisher & Paykel Healthcare Corporation Limited together with those above companies marked with an asterisk are the companies in the Negative Pledge Deed (refer Note 17).

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
16. Deferred Tax Asset/Liability				
The balance comprises temporary differences attributable to:				
145	154	Provisions and accruals	17,512	15,537
		Depreciation	(1,872)	(728)
		Amortisation	1,321	1,163
		Cash flow hedges	(20,493)	756
		Other	(674)	120
145	154		(4,206)	16,848
145	154	Deferred tax asset	11,011	16,848
		Deferred tax liability	(15,217)	-
145	154		(4,206)	16,848
Movements				
Balance at beginning of the year				
173	145	Deferred tax asset	16,848	8,717
		Deferred tax liability		
Credited (charged) to the Income Statements				
(28)	9	Provisions and accruals	1,975	6,485
		Depreciation	(1,144)	(99)
		Amortisation	158	52
		Other	(794)	549
(28)	9		195	6,987
Credited (charged) to Other Comprehensive Income				
			(21,249)	1,144
Balance at end of the year				
145	154	Deferred tax asset	11,011	16,848
		Deferred tax liability	(15,217)	-
145	154		(4,206)	16,848
Timing of usage				
The amount of the deferred tax asset expected to be used:				
Within one year				
145	154	Greater than one year	10,508	15,646
			503	1,202
145	154		11,011	16,848
The amount of the deferred tax liability expected to be used:				
Within one year				
		Greater than one year	(2,501)	-
			(12,716)	-
			(15,217)	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		17. Interest-Bearing Liabilities		
		CURRENT		
		Bank overdrafts	8,014	5,667
		Borrowings	16,488	17,780
			24,502	23,447
		NON-CURRENT		
		Borrowings	59,610	97,510
			59,610	97,510
		Foreign currency risk		
		The carrying amounts of the Group's bank overdrafts are denominated in the following currencies:		
		United States dollars	1,756	-
		European Union euros	3,780	4,129
		Australian dollars	575	979
		British pounds	880	314
		Swedish krona	624	88
		Japanese yen	256	-
		Other currencies	143	157
			8,014	5,667
		The carrying amounts of the Group's borrowings are denominated in the following currencies:		
		New Zealand dollars	34,033	66,279
		United States dollars	22,597	27,221
		European Union euros	15,209	18,948
		Australian dollars	4,259	2,842
			76,098	115,290
		Borrowings due for repayment		
		Current	16,488	17,780
		One to two years	-	38,200
		Two to three years	57,709	-
		Three to four years	-	59,310
		Four to five years	1,901	-
		Non-current	59,610	97,510

These borrowings have been aged in accordance with the expiry dates of the facilities. At year end the weighted average interest rate is 5.3% (2009: 4.9%)

17. Interest-Bearing Liabilities (continued)

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 15. 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 \$150 million (2009: \$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.

		CONSOLIDATED	
		2010	2009
		NZ\$000	NZ\$000
	Unused lines of credit		
	Bank overdraft facilities	5,947	8,175
	Borrowing facilities	95,985	66,762
		101,932	74,937

Fair value

Carrying amounts of interest bearing liabilities are equivalent to their fair values.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
18. Trade and Other Payables				
CURRENT				
		Trade payables	22,812	23,677
		Employee entitlements	19,012	16,852
242	279	Other payables and accruals	16,722	17,208
242	279		58,546	57,737
NON-CURRENT				
		Employee entitlements	2,990	2,734
490	513	Other payables and accruals	2,211	489
490	513		5,201	3,223
Foreign currency risk				
The carrying amounts of the Group's trade and other payables are denominated in the following currencies:				
732	792	New Zealand dollars	39,504	34,199
		United States dollars	10,407	12,271
		European Union euros	7,402	8,016
		Australian dollars	2,082	2,068
		British pounds	1,653	1,693
		Japanese yen	1,253	314
		Other currencies	1,446	2,399
732	792		63,747	60,960

Fair value

Carrying amounts of trade and other payables are equivalent to their fair values.

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
		19. Provisions		
		CURRENT		
		Warranty provision:		
		Balance at beginning of the year	2,203	2,342
		Current year provision	5,471	2,899
		Warranty expenses incurred	(3,491)	(3,038)
		Balance at end of the year	4,183	2,203
		NON-CURRENT		
		Warranty provision:		
		Balance at beginning of year	1,160	640
		Current year provision	534	520
		Warranty expenses incurred		
		Balance at end of the year	1,694	1,160

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.

The total provision of \$5,877,000 is expected to be fully utilised during the 2011 and 2012 financial years. There will be no reimbursements.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
20. Share Capital				
6,083	6,348	Share capital at beginning of the year	6,348	6,083
-	5,895	Issue of share capital under dividend reinvestment plan (i)	5,895	-
202	251	Issue of share capital	251	202
5	1,724	Shares issued under share option schemes for employee services	1,724	5
58	1,004	Employee share scheme shares issued for employee services	1,004	58
6,348	15,222	Share capital at end of the year	15,222	6,348
(2,272)	(2,222)	Less accounted for as treasury shares	(2,222)	(2,272)
4,076	13,000		13,000	4,076
Number of authorised shares				
509,452,817	509,530,912	Number of shares on issue at beginning of the year	509,530,912	509,452,817
Shares issued:				
-	1,934,824	Dividend reinvestment plan (i)	1,934,824	-
69,795	396,438	Employee share purchase schemes	396,438	69,795
6,666	243,833	Exercise of share options	243,833	6,666
1,634	198,844	Exercise of share options under cancellation facility	198,844	1,634
509,530,912	512,304,851	Total number of shares on issue	512,304,851	509,530,912
(788,965)	(867,717)	Less accounted for as treasury shares	(867,717)	(788,965)
508,741,947	511,437,134		511,437,134	508,741,947

(i) 1,934,824 (2009: nil) shares were issued under the Company's dividend reinvestment plan at an average price of \$3.05 per share.

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
21. Reserves				
Retained earnings				
62,642	44,575	Balance at beginning of the year	187,726	188,668
45,108	56,451	Profit after tax	71,631	62,233
Dividends: (i)				
(35,662)	(35,669)	Final 2009 (2008)	(35,669)	(35,662)
(27,513)	(27,627)	Interim 2010 (2009)	(27,627)	(27,513)
44,575	37,730	Balance at end of the year	196,061	187,726

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
21. Reserves (continued)				
Asset revaluation reserve				
		Balance at beginning of the year	10,850	-
		Revaluation of land	-	10,850
		Balance at end of the year	10,850	10,850
Cash flow hedge reserve – unrealised (ii)				
		Balance at beginning of the year	(1,765)	905
		Revaluation of derivative financial instruments	74,423	(3,071)
		Transfer to profit before tax	(3,592)	(743)
		Deferred tax	(21,249)	1,144
		Balance at end of the year	47,817	(1,765)
Cash flow hedge reserve – realised				
		Balance at beginning of the year	-	-
		Monetised financial instruments	31,813	-
		Tax on monetised financial instruments	(9,544)	-
		Balance at end of the year	22,269	-
Employee share entitlement reserve				
184	317	Balance at beginning of the year	317	184
154	142	Employee expense for the year	142	154
(58)	(201)	Transfer to share capital on vesting of shares to employees	(201)	(58)
37	-	Other movements	-	37
317	258	Balance at end of the year	258	317
Employee share option reserve				
2,260	3,097	Balance at beginning of the year	3,097	2,260
842	772	Employee expense for the year	772	842
(5)	(960)	Transfer to share capital on exercise or lapse of vested options	(960)	(5)
3,097	2,909	Balance at end of the year	2,909	3,097
Treasury shares				
(2,436)	(2,272)	Balance at beginning of the year	(2,272)	(2,436)
114	790	Treasury shares issued to employees share purchase plans	790	114
50	(740)	Shares transferred to employees	(740)	50
(2,272)	(2,222)	Balance at end of the year	(2,222)	(2,272)

(i) Supplementary dividends of \$4,798,000 were paid (2009: \$3,127,000).
All dividends are recognised as distributions to shareholders.

(ii) There was no ineffectiveness in relation to cash flow hedges.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

	CONSOLIDATED	
	2010 NZ\$000	2009 NZ\$000
22. Earnings Per Share		
Basic		
Basic earnings per share is calculated by dividing the profit after tax of the Group by the weighted average number of ordinary shares outstanding during the year.		
Profit after tax	71,631	62,233
Weighted average number of ordinary shares outstanding (000's)	511,251	509,492
Basic earnings per share (cents per share)	14.0 cps	12.2 cps
Diluted		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Options are convertible into the Company's shares, and are therefore considered dilutive securities for diluted earnings per share.		
Profit after tax	71,631	62,233
Weighted average number of ordinary shares outstanding (000's)	511,251	509,492
Weighted average number of share options outstanding (000's)	18,542	17,871
Weighted average number of ordinary shares for diluted earnings per share (000's)	529,793	527,363
Diluted earnings per share (cents per share)	13.5 cps	11.8 cps

23. Share Based Payments

Employee share option plans

Options are granted to selected employees pursuant to the Share Option Plans and vest in three equal annual instalments commencing no earlier than the second anniversary of the grant date as long as the employee remains in the service of the Company, 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 50% or more 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 employees or, if applicable, the employees' executors will have three months 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 2010 options had been granted to 304 employees (2009: 275). Options granted to employees have no voting rights until they have been exercised and ordinary shares have been issued.

Movements in the number of share options outstanding and their exercise prices are as follows:

31 MARCH 2010

	YEAR OF ISSUE						TOTAL
	2010(i)	2009(ii)	2008(iii)	2007(iv)	2006(v)	2005(vi)	
Balance at beginning of the year	-	3,939,000	3,764,100	3,697,800	3,671,100	4,230,008	19,302,008
Granted during the year	3,996,600	-	-	-	-	-	3,996,600
Exercised during the year (vii)	-	-	-	-	-	(2,864,155)	(2,864,155)
Lapsed during the year (viii)	(29,700)	(66,600)	(83,100)	(125,700)	(93,900)	(1,365,853)	(1,764,853)
Balance at end of the year	3,966,900	3,872,400	3,681,000	3,572,100	3,577,200	-	18,669,600

31 MARCH 2009

	YEAR OF ISSUE						TOTAL
	2009(ii)	2008(iii)	2007(iv)	2006(v)	2005(vi)		
Balance at beginning of the year	-	3,908,100	3,831,300	3,770,400	4,315,008	15,824,808	
Granted during the year	4,000,000	-	-	-	-	4,000,000	
Exercised during the year (vii)	-	-	-	-	(31,664)	(31,664)	
Lapsed during the year (viii)	(61,000)	(144,000)	(133,500)	(99,300)	(53,336)	(491,136)	
Balance at end of the year	3,939,000	3,764,100	3,697,800	3,671,100	4,230,008	19,302,008	

- (i) Options expiring September 2014 have exercise prices based on future costs of capital and dividends using a base price of \$3.29 per option.
- (ii) Options expiring September 2013 have exercise prices based on future costs of capital and dividends using a base price of \$3.11 per option.
- (iii) Options expiring December 2012 have exercise prices based on future costs of capital and dividends using a base price of \$3.31 per option.
- (iv) Options expiring December 2011 have exercise prices based on future costs of capital and dividends using a base price of \$4.26 per option.
- (v) Options expiring September 2010 have exercise prices based on future costs of capital and dividends using a base price of \$3.58 per option.
- (vi) Options expiring August 2009 have exercise prices based on future costs of capital and dividends using a base price of \$2.63 per option.
- (vii) The number of options exercised during the year also includes any options cancelled under the cancellation facility. The cancellation facility allows optionholders to cancel their options and receive in return ordinary shares equal in value to the gain on the options.
- (viii) The number of options that lapsed during the year includes options held by employees at resignation and options that lapsed upon expiry.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

23. Share Based Payments (continued)

Out of the 18,669,600 outstanding options (2009: 19,302,008 options), 7,000,173 options (2009: 7,729,878 options) were exercisable.

Options exercised in 2010 resulted in 243,833 shares (2009: 6,666 shares) being issued at a weighted average exercise price of \$3.14 (2009: \$3.04 each). The related weighted average price at the time of exercise was \$3.33 (2009: \$3.19) per share.

Total options cancelled in 2010 of 2,620,322 (2009: 24,998 options) resulted in 198,840 shares (2009: 1,634 shares) being issued at a weighted average exercise price of \$3.06 (2009: \$3.08) per share. The related weighted average price at the time of cancellation was \$3.32 (2009: \$3.30) per share.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

FINANCIAL YEAR	EXPIRY	EXERCISE PRICE	OPTIONS	
			2010	2009
2010	August 2009	Variable (i)	-	4,230,008
2011	September 2010	Variable (ii)	3,577,200	3,671,100
2012	December 2011	Variable (iii)	3,572,100	3,697,800
2013	December 2012	Variable (iv)	3,681,000	3,764,100
2014	September 2013	Variable (v)	3,872,400	3,939,000
2015	September 2014	Variable (vi)	3,966,900	-
			18,669,600	19,302,008

- (i) Options expiring August 2009 have exercise prices based on future costs of capital and dividends using a base price of \$2.63 per option.
- (ii) Options expiring September 2010 have exercise prices based on future costs of capital and dividends using a base price of \$3.58 per option.
- (iii) Options expiring December 2011 have exercise prices based on future costs of capital and dividends using a base price of \$4.26 per option.
- (iv) Options expiring December 2012 have exercise prices based on future costs of capital and dividends using a base price of \$3.31 per option.
- (v) Options expiring September 2013 have exercise prices based on future costs of capital and dividends using a base price of \$3.13 per option.
- (vi) Options expiring September 2014 have exercise prices based on future costs of capital and dividends using a base price of \$3.29 per option.

The fair value of options granted during the period determined using the Binomial Options Pricing Model was \$0.183 (2009: \$0.172) per option or \$731,000 (2009: \$688,000) in aggregate.

The significant inputs into the model were:

	2010	2009
Share price at grant date	\$3.29	\$3.11
Base price at grant date	\$3.29	\$3.11
Expected/historical share price volatility	13.8%	12.4%
Dividends expected over option life (cents)	58.3	58.3
Option life (years)	5	5
Risk free interest rate	4.56%	6.05%
Cost of equity	9.50%	10.22%

The expected price volatility is derived by analysing the historical volatility over the most recent historical period corresponding to the term of the option.

	2010	2009
Total amount expended in year for employee share option plans	\$772,000	\$845,000

Employee share purchase plans

Shares are issued at a discount of 20% of market price, on terms permitted by the Schemes in accordance with section DC12 and 13 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 period between grant and vesting date is 3 years. Dividends paid during this 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.

867,717 shares (2009: 788,965) are held by the Schemes, being 0.2% (2009: 0.2%) of the Company's issued and paid up capital. As at 31 March 2010, all shares were allocated to employees, except for 17,164 (2009: 91,083). 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 vesting date, 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.

At 31 March 2010 the total receivable owing from employees is \$1,126,000 (2009: \$1,370,000).

Movements in the number of shares outstanding and their related weighted average issue prices are as follows:

	2010		2009	
	PRICE*	NUMBER	PRICE*	NUMBER
As at beginning of the year	\$2.88	697,882	\$2.87	777,147
Granted during the year	\$2.61	420,670	-	-
Vested during the year	\$3.62	(223,893)	\$2.58	(19,596)
Lapsed due to resignation	\$2.66	(44,106)	\$2.87	(59,669)
As at end of the year	\$2.56	850,553	\$2.88	697,882

* Weighted average

Shares outstanding at the end of the year have the following vesting dates and issue prices:

FINANCIAL YEAR	VESTING	ISSUE PRICE		SHARES	
		2010	2009	2010	2009
2010	June 2009	\$3.63*	\$3.60*	644	233,699
2011	December 2010 and February 2011	\$2.51*	\$2.51*	434,615	464,183
2012	August 2012	\$2.61*	-	415,294	-
				850,553	697,882

* Weighted average

The fair value of shares granted during the period has been determined as being the discount on issue and the present value of the interest free loan to the employee and is \$368,000 (2009: \$Nil).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

23. Share Based Payments (continued)

	2010	2009
Total amount expended in year for employee share purchase plans		
– Discount on issue	\$142,000	\$154,000
– Interest free loan	\$66,000	\$81,000

Employee stock purchase plan

Shares are issued at a discount of 15% being the lower of the market price at the date of issue or the market price at the beginning of the annual offering period (normally 1 January) in accordance with section 423 of the US Internal Revenue Code, as amended. All North American employees working more than 20 hours per week are eligible after a qualifying period. Employees make regular payroll contributions to the plan with shares being issued to employees quarterly to the value of their accumulated contributions to the plan.

All shares are allocated to employees at the time of issue and vest immediately.

Shares issued in 2010 totalled 93,793 (2009: 69,795).

	2010	2009
Total amount expended in year for employee stock purchase plans	\$44,000	\$39,000

PARENT		CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000	2010 NZ\$000	2009 NZ\$000
24. Retirement Benefit Obligations			
Balance Sheet obligations for:			
		551	-
		-	(415)
Income Statement (credit) charge:			
		(966)	515

All qualifying New Zealand based employees of the Group plus employees in certain other countries are entitled to superannuation benefits from the Group's defined contribution superannuation plans on retirement, disability, death or resignation. In addition to these Plans, 2 (2009: 3) New Zealand based employees have benefits on a defined benefit basis such that should their account balances under the Plan at the time a benefit is payable be below the defined benefit level, the Company makes a special contribution. The defined benefit arrangements provide a top-up lump sum benefit based on years of membership and final average salary.

The amounts recognised in the Balance Sheet are determined as follows:

	256	810
Fair value of defined benefit plan assets	625	532
Present value of unfunded obligations	(369)	278
Adjustments for contributions tax	(182)	137
Net (asset) liability in the Balance Sheet	(551)	415

PARENT		CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000	2010 NZ\$000	2009 NZ\$000
		The major categories of the Plan's assets are as follows:	
Cash		34.3%	31.8%
Debt instruments		48.5%	54.2%
Equity instruments		15.8%	0.0%
Property		1.4%	1.3%
Other assets		0.0%	12.7%
		The movement in the defined benefit obligation over the year is as follows:	
Balance at beginning of the year		810	448
Current service cost (Company)		14	19
Interest costs		31	11
Contributions by plan participants		4	9
Actuarial losses (gains)		(466)	323
Benefits paid		(137)	-
Balance at end of the year		256	810
		The movement in the fair value of Plan assets over the year is as follows:	
Balance at beginning of the year		532	494
Expected return on plan assets		28	30
Actuarial gain (loss)		194	(10)
Contributions by Group companies		4	9
Contributions by Plan participants		4	9
Benefits paid		(137)	-
Balance at end of the year		625	532
		The amounts recognised in the Income Statements are as follows:	
Current service cost		14	19
Interest costs		31	11
Expected return on Plan assets		(28)	(18)
Net actuarial losses (gains) recognised in year		(664)	343
Increase in allowance for tax funded by employer		(319)	160
Total included in employee benefits expense		(966)	515

Of the total credit for 2010 \$194,000, \$243,000 and \$529,000 were included in cost of sales, selling, general and administrative expenses and research and development expenses respectively.

Of the total charge for 2009 \$103,000, \$129,000 and \$283,000 were included in cost of sales, selling, general and administrative expenses and research and development expenses respectively.

The actual return on plan assets was \$60,000 (2009: \$(1,000)).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

24. Retirement Benefit Obligations (continued)

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	2010	2009
Discount rate	4.21%	3.74%
Expected return on Plan assets	6.00%	6.00%
Future salary increase	4.50%	4.50%

The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of Plan assets to these major categories. This resulted in the selection of a 6.0% rate of return net of tax (and expenses).

During the 2008 year the defined benefit liabilities for all but 3 employees were curtailed, and the current liability was settled by the transfer to a defined contribution arrangement. At the same time the Company separately provided for a contingent liability in respect of providing for a minimum benefit level on retirement. The amount provided for at 31 March 2010 was \$51,000 (2009: \$691,000).

	2010 NZ\$000	2009 NZ\$000
Historical Summary:		
Present value of the defined benefit obligation	256	810
Fair value of defined benefit plan assets	625	532
Present value of unfunded obligations	369	(278)
Employer Superannuation Contribution Tax	182	(137)
Surplus (deficit)	551	(415)
Experience adjustments arising on plan liabilities	(466)	323
Experience adjustments arising on plan assets	194	(10)

In preparation of the historical summary information in the table above it was noted that there was a typographical error in relation to the 2009 information. The closing balance was shown as a \$415,000 surplus when it was actually a deficit, in line with the information provided earlier in the note and as recognised correctly in the 2009 balance sheet. The 2009 year comparative in the table above has been corrected to now denote the balance as a deficit of \$415,000.

25. Related Party Transactions

During the period 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 period.

During the period the Company advanced and repaid loans to its subsidiaries by way of internal current accounts. 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 entered into certain transactions with its subsidiaries as follows:

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

- Loans from the Parent to subsidiaries \$40,999,000 (2009: \$41,161,000).

These unsecured advances represent long-term funding even though they are for no fixed term and bear interest at 8.35% (2009: 8.77%).

Material transactions between the Parent and its subsidiaries were:

- Interest charged in respect of the loans to subsidiaries of \$1,168,000 (2009: \$2,596,000).
- Dividends received by the Parent from its subsidiaries \$56,605,000 (2009: \$43,937,000).
- Payments from subsidiaries to Parent for options and shares issued to employees \$958,000 (2009: \$1,038,000).
- Proceeds from employee share purchase plans in respect of vested shares paid to the Parent from its subsidiaries \$1,059,000 (2009: \$217,000).

These amounts are not outstanding at balance date.

(a) Key Management and Director Compensation

Key management and director compensation for the years ended 31 March 2010 and 2009 is set out below. The key management personnel include the directors of the Company and those employees who the Company have deemed to have disclosure obligations under Section 19T of the Securities Markets Act 1988. Key management personnel did not receive and are not entitled to receive any post employment or long term benefits.

PARENT			CONSOLIDATED	
2009	2010		2010	2009
NZ\$000	NZ\$000		NZ\$000	NZ\$000
		Salaries and other short term benefits	4,534	3,990
		Employer contributions to defined contribution superannuation plans	170	146
		Employee share purchase plans	2	2
		Employee share option plans	176	195
687	657	Directors' fees paid	657	687
133	-	Directors' retirement fee paid	-	133
(88)	24	Movement in accrual for directors' retirement fees	24	(88)
732	681	Total compensation	5,563	5,065

The amounts of key management and director compensation outstanding as at balance day are \$1,195,000 (2009: \$905,000) for the Group and \$343,000 (2009: \$315,000) for the Parent.

(b) Other Transactions with Key Management and Directors or Entities related to them

There have been no other material transactions with key management and Directors or entities related to them during the period.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
26. Cash Flow Reconciliations				
45,108	56,451	Profit after tax	71,631	62,233
		Add (deduct) non-cash items:		
		Depreciation and writedown of property, plant and equipment to recoverable amount	15,514	15,376
		Amortisation of intangibles	1,936	1,926
		Accrued financing income / expense	(16)	264
		Movement in provisions	2,514	381
(28)	9	Movement in deferred tax asset / liability	(195)	(6,987)
		Movement in working capital:		
1	(4)	Trade and other receivables	9,795	(21,672)
		Inventory	(1,817)	(19,176)
(46)	60	Trade and other payables	5,309	16,031
3,099	4,807	Provision for taxation net of supplementary dividend paid	20,037	4,346
(2,786)	(4,705)	Intercompany advances in relation to operating cashflows		
		Foreign currency translation (i)	(9,528)	9,343
		Add non-Income Statement items:		
		Monetised cash flow hedges	22,269	-
45,348	56,618	Net cash flows from operations	137,449	62,065

(i) A further item has been added to the reconciliation this period which reflects the non-cash movement in the value of foreign currency assets and liabilities, other than those items specifically detailed, that are included within the Income Statement. A comparative amount of \$9,343,000 has also been presented; this amount was previously recorded within Trade and Other Payables.

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
27. Imputation Credit Accounts				
52	46	Balance at beginning of the year	103	104
16,300	22,300	Imputation credits attached to dividends received		
		Imputation credits arising from taxation paid	22,552	16,305
(16,306)	(22,328)	Imputation credits attached to dividends paid to shareholders	(22,328)	(16,306)
46	18	Balance at end of the year	327	103
Imputation credits directly and indirectly available to shareholders as at 31 March are:				
		Parent	18	46
		Subsidiaries	309	57
		Balance at end of the year	327	103

28. Contingent Liabilities

Periodically the Group is party to litigation including product liability and patent claims. To date such claims have been few in number and 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 Group.

The Parent has a contingent liability relating to guarantees of all subsidiary company indebtedness (refer Note 17).

PARENT			CONSOLIDATED	
2009 NZ\$000	2010 NZ\$000		2010 NZ\$000	2009 NZ\$000
29. Commitments				
		Capital expenditure commitments contracted for but not recognised as at the reporting date	5,612	4,653
Gross commitments under non-cancellable operating leases				
		Within one year	5,169	5,010
		Between one and two years	4,492	4,019
		Between two and five years	3,505	2,237
		Over five years	5,454	-
			18,620	11,266

Operating lease commitments relate mainly to building leases. There are no renewal options or options to purchase in respect of leases of plant and equipment.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

PARENT			CONSOLIDATED			
NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000

30. Financial Instruments by Category

The accounting policies for financial instruments have been applied to the line items below:

LOANS AND RECEIVABLES	OTHER FINANCIAL ASSETS	TOTAL	LOANS AND RECEIVABLES	ASSETS AT FAIR VALUE THROUGH THE PROFIT AND LOSS	DERIVATIVES USED FOR HEDGING	TOTAL
31 March 2010						
Assets as per Balance Sheets						
			6,891	-	-	6,891
			62,726	-	-	62,726
			-	67	71,802	71,869
40,999	-	40,999				
40,999	-	40,999	69,617	67	71,802	141,486
31 March 2010						
Liabilities as per Balance Sheets						
			-	-	84,112	84,112
			-	-	39,534	39,534
			15	3,495	-	3,510
			15	3,495	123,646	127,156

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

32. Segment Information

The operating segments of the Group have been determined based on the components of the Group that the CODM monitors in making decisions about operating matters. These components have been identified on the basis of internal reports that the CODM reviews regularly in order to allocate resources and to assess the performance of the Group.

The Group has four operating segments reportable under NZ IFRS 8, as described below, which are the Group's strategic business units or groupings of business units. All other operating segments have been included in 'New Zealand segments'.

The strategic business units all offer the same products, being medical device products and systems for use in respiratory and acute care and the treatment of obstructive sleep apnea. Products are sold in over 120 countries worldwide through the Group's distribution subsidiaries, third party distributors and original equipment manufacturers (OEMs), with these sales being managed geographically from New Zealand and other locations worldwide. It is the management of these worldwide sales relationships that forms the basis for the Group's reportable segments. The following summary describes the operations in each of the Group's reportable segments:

- 1) North America. Includes all activities controlled by entities or employees based in the United States of America and Canada, principally sales, distribution and administration activities.
- 2) Europe. Includes all activities controlled by entities or employees based in the United Kingdom, France, Germany and Sweden, principally sales, distribution and administration activities. These sales and distribution hubs also distribute product into neighbouring European countries.
- 3) Asia-Pacific. Includes all activities controlled by entities or employees based in Australia, Japan, India, China and Taiwan, principally sales, distribution and administration activities.
- 4) New Zealand. Includes all activities controlled by entities or employees based in New Zealand, principally research and development, manufacturing, marketing, sales and distribution and administration. The sales and distribution activity principally relates to New Zealand, Latin America, Africa, the Middle East and other countries in Asia not included in 3) above. Also included are sales made to countries within Europe and Asia-Pacific where the management of the sale is from New Zealand.

All minor or other activities have been included in the New Zealand segment as they are controlled by New Zealand entities or employees.

There are varying levels of integration between these geographical segments. This integration includes transfers of finished product, principally from New Zealand to other segments, and shared costs. The accounting policies of the reportable segments are the same as described in Note 2.

Information regarding the operations of each reportable segment is included below. Performance is measured based on segment operating profit or EBIT. Segment profit is used to measure performance as the CODM believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry. Inter-segment pricing is determined on an arm's length basis.

Operating Segments - 31 March 2010

	NEW ZEALAND NZ\$000	NORTH AMERICA NZ\$000	EUROPE NZ\$000	ASIA- PACIFIC NZ\$000	ELIMINATIONS NZ\$000	TOTAL NZ\$000
Sales revenue – external	73,076	216,162	140,236	45,281	-	474,755
Sales revenue – internal	288,539	-	438	14	(288,991)	-
Foreign exchange gain on hedged sales	28,567	-	-	-	-	28,567
Total operating revenue	390,182	216,162	140,674	45,295	(288,991)	503,322
Other income	1,048	-	-	3,221	-	4,269
Depreciation and amortisation	15,996	316	516	622	-	17,450
Reportable segment operating profit before financing costs	72,668	4,636	5,398	5,732	14,405	102,839
Financing income	2,518	-	3	15	(1,879)	657
Financing expense	(5,809)	(1,650)	(647)	(217)	1,879	(6,444)
Exchange gain on foreign currency borrowings	9,763	-	-	-	-	9,763
Reportable segment assets	440,333	67,818	52,553	19,836	(105,481)	475,059
Reportable segment capital expenditure	46,753	562	693	248	-	48,256

Operating Segments - 31 March 2009

	NEW ZEALAND NZ\$000	NORTH AMERICA NZ\$000	EUROPE NZ\$000	ASIA- PACIFIC NZ\$000	ELIMINATIONS NZ\$000	TOTAL NZ\$000
Sales revenue – external	84,445	226,347	136,918	37,806	-	485,516
Sales revenue – internal	283,551	5	368	7	(283,931)	-
Foreign exchange (loss) on hedged sales	(26,799)	-	-	-	-	(26,799)
Total operating revenue	341,197	226,352	137,286	37,813	(283,931)	458,717
Other income	3,000	-	-	-	-	3,000
Depreciation and amortisation	15,429	769	722	382	-	17,302
Reportable segment operating profit before financing costs	116,345	5,872	5,762	2,812	(28,400)	102,391
Financing income	3,460	-	22	9	(2,228)	1,263
Financing expense	(8,125)	(2,118)	(630)	(132)	2,228	(8,777)
Exchange (loss) on foreign currency borrowings	(9,839)	-	-	-	-	(9,839)
Reportable segment assets	375,438	72,876	58,344	15,819	(108,740)	413,737
Reportable segment capital expenditure	21,458	258	315	338	-	22,369

Product Segments

The Group's products and systems are for use in respiratory care, acute care and the treatment of obstructive sleep apnea and are sold in over 120 countries worldwide. Revenues are managed on a regional basis, but a split by product group is set out below. Assets are not split by product group. Segment revenue is based on product SKUs.

Product Group Information

	YEAR ENDED 31 MARCH 2010 NZ\$000	YEAR ENDED 31 MARCH 2009 NZ\$000
Respiratory & acute care	242,419	226,866
Obstructive sleep apnea	237,012	202,604
Core products subtotal	479,431	429,470
Distributed and other	23,891	29,247
Total revenue	503,322	458,717

Major Customer

Revenues from one customer of the North America segment (being a distributor) represents approximately \$56.7 million (2009: \$64.5 million) of the Group's total revenues.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2010

33. Significant Events After Balance Date

On 26 May 2010 the Directors approved the payment of a fully imputed 2010 final dividend of \$35,863,913 (7.0 cents per share) to be paid on 9 July 2010.

On 20 May 2010 the New Zealand Government announced several changes to tax legislation which have an impact on the Company and its New Zealand entities. Amongst the changes is a reduction to the New Zealand corporate tax rate from 30% to 28%, effective from 1 April 2011 for the New Zealand entities. Based on the deferred tax balances of the Company and Group at 31 March 2010 the forecast impact of this change in corporate tax rate on the deferred tax balances is not material to the Company and Group.

The New Zealand Government has also announced changes to the deductibility of depreciation on certain buildings. The Company and Group are currently assessing the impact of this change and are unable to reliably quantify the impact as at the date of signing these financial statements.