

Fisher & Paykel Appliances Holdings Limited

**INTERIM REPORT 2007/08**



**AquaSmart™**

After the success of the AquaSmart™ washer in Australia, the model has been recently introduced to the North American market.

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## CHAIRMAN'S REVIEW

### Results

Before one-off items, Group profit after taxation for the six months ended 30 September 2007 was 18.7 percent up on the previous corresponding period at \$32.305 million. After one-off items, Group profit after taxation for the half was \$29.290 million, an increase of \$4.176 million (16.6 percent) on the previous corresponding period. The one-off items represented relocation costs and the profit on the sale of land & buildings. Taxation for the half was reduced by \$2.590 million following an adjustment to the Group's deferred tax liability to reflect the reduction in the New Zealand company tax rate to 30 percent, effective 1 April 2008.

Highlights for the half year include:

- Group profit up 18.7 percent
- Revenue up in all Appliances markets (local currency terms)
- Thailand factory construction under way
- Washer – New Zealand production extended
- Finance normalised Operating Profit up
- Dividend maintained (9 cents).

Before one-off items, earnings before taxation and interest at \$56.249 million were up 6.1 percent on the previous corresponding period. This was driven by the Appliances business and was due to increased sales, new product releases and continued cost down activities. As a result, Appliances' operating margin improved to 6.8 percent compared to 6.3 percent for the first half last year. In local currency terms, sales in Appliances' three major markets of New Zealand, Australia and North America exceeded the previous corresponding period and achieved record highs. These records were realised notwithstanding weakening markets in both New Zealand and the USA.

One-off costs associated with relocating the New Zealand Laundry Products and Electronics factories to Thailand amounted to \$11.377 million before taxation (\$7.627 million after tax). This was partially offset by the profit on the sale of the New Zealand Northern Region warehouse of \$5.021 million before taxation (\$4.612 million after tax).

Financial Performance	Unaudited 6 Months 30 Sep 2007 NZ\$000	Unaudited 6 Months 30 Sep 2006 NZ\$000	Year 31 Mar 2007 NZ\$000
Normalised Operating Profit before Interest and Taxation			
Appliances	42,878	39,820	84,382
Finance	13,371	13,175	29,157
	<b>56,249</b>	52,995	113,539
One Off Relocation Costs (see note below)			
- Appliances	<b>(11,377)</b>	-	-
One Off Restructuring Costs (see note below)			
- Appliances	-	(2,663)	(5,934)
- Finance	-	(472)	(591)
Profit on Sale of Land & Buildings			
- Appliances	5,021	-	7,127
<b>Operating Profit Before Interest and Taxation</b>	<b>49,893</b>	49,860	114,141
Interest *	<b>(10,413)</b>	(9,960)	(20,695)
<b>Operating Profit Before Taxation</b>	<b>39,480</b>	39,900	93,446
Taxation	<b>(10,190)</b>	(14,786)	(30,009)
<b>Group Profit After Taxation</b>	<b>29,290</b>	25,114	63,437
<b>Normalised Group Profit After Taxation</b>	<b>32,305</b>	27,214	62,820

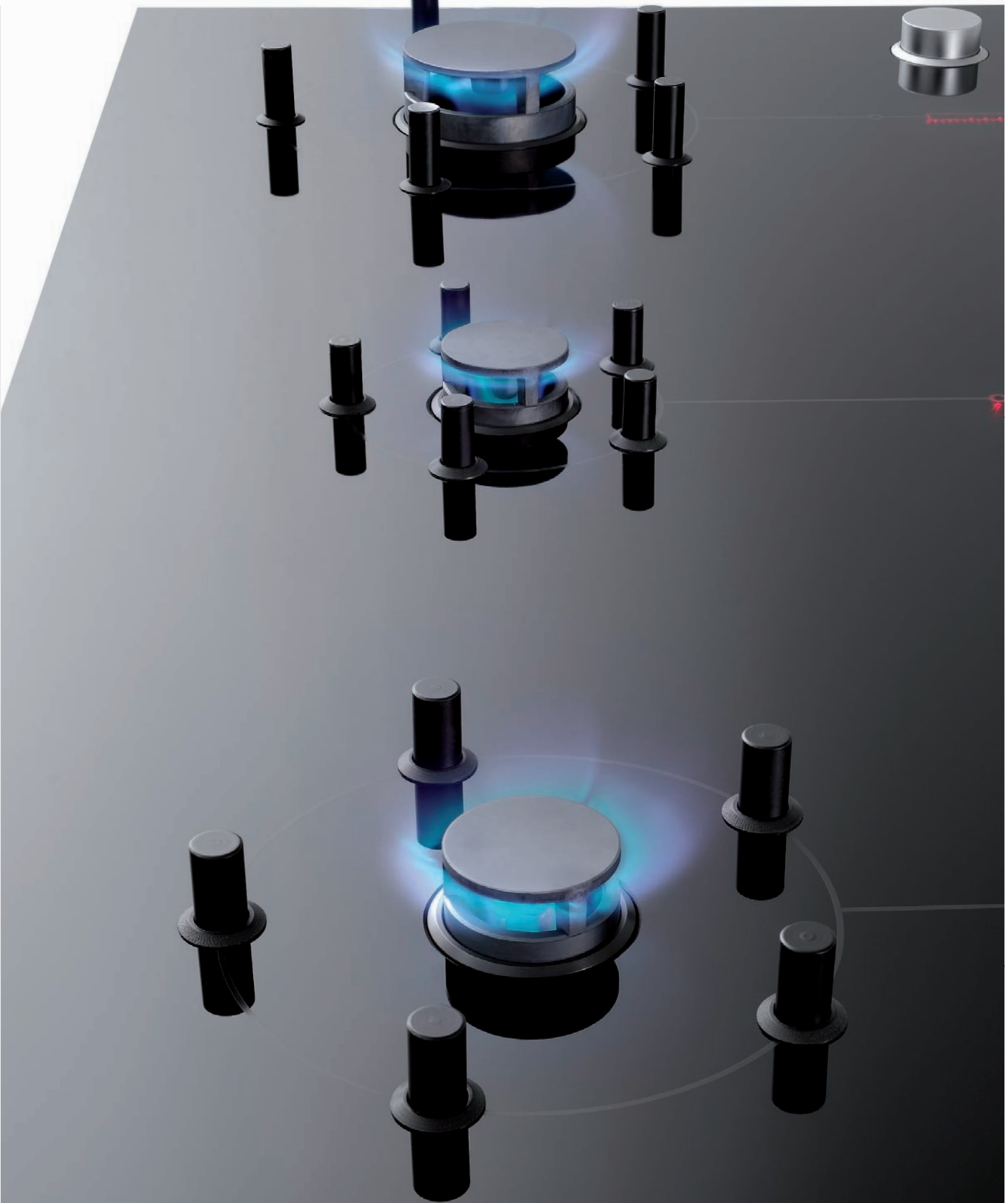
\* Excludes Operating Interest of the Finance Group

One Off Relocation Costs in the current year represent costs associated with relocating the New Zealand Laundry Products and Electronics Factories to Thailand.

Restructuring Costs in the previous periods were for staff redundancies and other costs due to the relocation of plant closer to our major markets, the integration of acquired businesses and component outsourcing.

**CookSurface**

The *CookSurface* cooktop soon to be released onto the New Zealand market.





**Ice & Water French Door**  
The French Door refrigerator featuring Ice & Water has quickly gained market share in the Australian market

The Group adopted New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) effective 1 April 2007. As a consequence, the comparative financial statements for the 6 months ended 30 September 2006 and for the year ended 31 March 2007 have been restated.

A reconciliation of the differences between the previously reported financial statements, which were prepared under New Zealand Financial Reporting Standards (NZ FRS), has been provided in Note 15 of the Interim Consolidated Financial Statements.

The Finance business delivered a satisfactory and credible performance during a period of considerable uncertainty and pressure within the Finance industry. Funding and liquidity remains solid with reinvestment rates on debentures continuing at satisfactory levels. Bank facilities have been increased and funding through the A1+ rated Standard & Poors commercial paper programme has been restored after a period of uncertainty in that debt market.

## Revenue

In New Zealand dollar terms, Total Revenue and Other Income decreased by \$3.6 million (0.5 percent) to \$693.1 million for the half-year. This reduction was entirely due to appreciation of the New Zealand dollar.

Appliances Operating Revenue of \$628.1 million was down \$7.8 million. While growth was achieved in all sales regions, currency translation effects due to the appreciation in the value of the New Zealand dollar, reduced sales revenue by \$52.6 million compared to the previous corresponding period.

Finance Operating Revenue decreased by 1.2 percent compared to the corresponding half last year. Given the recent market conditions, this is a satisfactory result.

Revenue	Unaudited 6 Months 30 Sep 2007 NZ\$000	Unaudited 6 Months 30 Sep 2006 NZ\$000	Year 31 Mar 2007 NZ\$000
<b>Appliances</b>			
New Zealand	121,701	120,152	241,366
Australia	208,760	198,281	425,385
USA	205,892	241,812	455,114
Europe	54,496	46,257	98,641
Rest Of World	37,244	29,414	72,235
Total Appliances Operating Revenue	<b>628,093</b>	635,916	1,292,741
Finance New Zealand	59,294	60,029	118,129
Other Income	5,687	737	8,211
<b>Total Revenue and Other Income</b>	<b>693,074</b>	696,682	1,419,081

## CHAIRMAN'S REVIEW

### Cash Flow

Operating activities utilised a net \$17.2 million in cash for the six months ended 30 September 2007.

Pursuant to NZ IFRS, loans extended to or repaid by Finance business customers are now classified as an operating activity cash flow, whereas under NZ FRS these were classified as an investing activity cash flow. Due to the growth in Finance Receivables, new loans to customers exceeded repayments by \$17.7 million. For the corresponding previous period, the converse occurred and repayments exceeded new loans by \$38.4 million. Excluding this, operating activities generated cash of \$0.5 million compared to \$19.1 million for the previous corresponding period.

The stock build of product to accommodate the shut down and relocation of the Laundry Products factory to Thailand absorbed operating cash of \$25.5 million during the current period. This will reverse through the first half of the 2008 calendar year.

The New Zealand staff superannuation scheme was restructured, effective 1 October 2006. This resulted in the majority of staff transferring into a defined contribution master

trust plan. The Group paid \$8.4 million into the scheme in the six months period ended 30 September 2007 to fund an earlier obligation which arose when the scheme had a mixture of defined contribution and defined benefit members. This did not affect earnings in the current period as the obligation was recognised on balance sheet when the Group adopted NZ IFRS. The defined benefit plan has been closed to new members since 2001 and at 30 September 2007 had 30 members.

These one-off items reduced operating activity cash flow by \$33.9 million.

### Capital and Depreciation

Capital expenditure, in cash flow terms, is shown in the table below.

Capital expenditure of \$1.1 million was included in the first half spend for the relocation of the Laundry and Electronics plants to Thailand. The project remains within budget and the balance of capital expenditure will be incurred in the second half.

Depreciation and amortisation charges for the half are shown in the table below.

Capital Expenditure	Unaudited 6 Months 30 Sep 2007 NZ\$000	Unaudited 6 Months 30 Sep 2006 NZ\$000
Appliances	15,787	21,549
Finance	634	989
<b>Total</b>	<b>16,421</b>	<b>22,538</b>

Depreciation and Amortisation	Unaudited 6 Months 30 Sep 2007 NZ\$000	Unaudited 6 Months 30 Sep 2006 NZ\$000
Appliances	22,595	21,650
Finance	3,952	4,114
<b>Total</b>	<b>26,547</b>	<b>25,764</b>



**DishDrawer®**  
DishDrawer® celebrated its 10 year anniversary in 2007. Over 1 million products have been sold worldwide.





**Freestanding Cooker**

Italian made Fisher & Paykel branded freestanding cookers are now available in numerous countries worldwide.

<b>Appliances Business</b>	<b>Unaudited 6 Months 30 Sep 2007 NZ\$000</b>	Unaudited 6 Months 30 Sep 2006 NZ\$000	Year 31 Mar 2007 NZ\$000
Operating Revenue	<b>628,093</b>	635,916	1,292,741
Normalised Operating Profit before Interest & Taxation	<b>42,878</b>	39,820	84,382
- One Off Costs for Relocation to Thailand	<b>(11,377)</b>	-	-
- One Off Restructuring Costs	-	(2,663)	(5,934)
Profit on Sale of Land & Buildings	<b>5,021</b>	-	7,127
<b>Reported Operating Profit before Interest &amp; Taxation</b>	<b>36,522</b>	37,157	85,575
Assets Employed	<b>1,045,120</b>	1,050,200	1,043,339
<b>Operating Margin *</b>	<b>6.8%</b>	6.3%	6.5%

\* Normalised Operating Profit before Interest & Taxation to Operating Revenue

### Dividend

The Directors have approved an interim dividend of 9 cents per share (9 cents for the previous corresponding period), carrying a partial imputation credit of 2.25 cents (equivalent to 20 cents in the dollar). Non-resident shareholders will receive a supplementary dividend of 0.806 cents per share.

The interim dividend will be paid on 5 December 2007, with a record date of 23 November 2007. The ex-dividend dates will be 19 November 2007 for the ASX and 26 November 2007 for the NZX.

### Appliances Business

The Appliances business segmented result for the six months ended 30 September 2007 is shown on the table on the facing page.

Continued focus on cost down, factory efficiencies along with the recent release of new innovative products have contributed to an improved operating margin.

Innovation has been a fundamental part of the Company's history. World firsts with the release of *DishDrawer*<sup>®</sup> and more recently the *AeroSmart* top loading dryer and *AquaSmart*<sup>™</sup> water efficient top loading autowashers have enhanced the Company's reputation at the top of the appliance world in terms of innovation. With the *CookSurface* gas through glass cooktop soon to be released and other innovative products under development, the company's high end market commitment remains focussed.

### Market Review

Appliances' revenue, by geographic region and base currency, for the half has been compared to the previous corresponding period in the table below.

New Zealand sales performed well in a declining market. Revenue was up 1.3 percent on the previous corresponding period, to a first half record \$121.5 million. The market, by contrast, is estimated to have declined between 4-5 percent over the previous corresponding period.

Australian revenue was up 11.1 percent. The Australian market has shown a slight recovery when compared with last year, up 2-3 percent. The new products released over the past 6 months, including *Ice & Water* refrigerators and *AquaSmart*<sup>™</sup> washers have assisted in lifting sales revenue and market share.

Overall North American sales were up slightly when compared with last year. The Fisher & Paykel and DCS brands collectively, were up 7.9 percent on the previous year. The US housing recession has resulted in the market, year on year, being down between 10-15 percent. Both the Fisher & Paykel and DCS brands continue to make gains in the marketplace.

European sales revenue increased by 28.6 percent. Sales in Italy have recovered from the second half of the last financial year. The Company took back the distribution of the DéLonghi and Elba brands in Italy on 1 July 2007 and now sells directly to the market.

#### Revenue Analysis in Local Currency

		6 Months 30 Sep 2007 \$000	6 Months 30 Sep 2006 \$000	Increase (Decrease) %
<b>Appliances*</b>				
New Zealand	(NZD)	121,561	120,011	1.3
Australia	(AUD)	184,531	166,053	11.1
USA	(USD)	152,723	152,117	0.4
Europe	(EUR)	29,780	23,156	28.6
Rest of World	(NZD)	34,373	29,382	17.0

\*Excludes non Appliance related sales

## CHAIRMAN'S REVIEW

The Italy cooking factory is now producing Fisher & Paykel branded products for the North American, UK, Ireland, New Zealand and Australian markets and factory earnings are currently ahead of expectations. Europe has grown to represent 8.7 percent of revenue globally.

Despite the continued strength of the New Zealand dollar, Rest of World sales lifted 17.0 percent over the same period last year. This was assisted by sales into International markets of products manufactured by the Italian factory.

### Finance Business

The Finance business delivered a better than expected result with normalised operating profit before acquisition interest and tax for the six months to 30 September 2007 of \$13.371 million exceeding the comparative period of \$13.175 million. Lower operating costs contributed to this result.

Improved portfolio yields, higher lending rates and further cost down initiatives offset higher funding costs. Competition remained intense. Due to household disposable incomes continuing to be pressured by higher interest rates, arrears and delinquencies in some categories of the receivables portfolio have deteriorated. This resulted in a need to increase bad debt provisions in these categories. Debt provisions overall remain at satisfactory levels.

Strong growth in consumer lending on Q Card has led to finance receivables growing by \$20.8 million in the past 12 months. This was despite a steady decline in Farmers retail big ticket financed sales.

New development initiatives continue for the Finance credit card products and the addition of more retail groups has increased the range of retailers accepting the cards.

### Outlook

The Group is forecasting a mixed market outlook for the second half. Demand is expected to increase in Australia, Europe, UK and Ireland and reduce in both New Zealand and the USA.

### Appliances

We expect the New Zealand market will continue to weaken in the second half as high interest rates take full effect. The business expects to retain a 50-55 percent market share range.

The Australian market has stabilised and shown a slight increase over the past 6 months. The disappointing refrigeration sales experienced over the summer last year are not expected to re-occur this year. A general market lift is expected after the Federal Election in late November.

Finance Business	Unaudited	Unaudited	Year
	6 Months	6 Months	
	30 Sep 2007	30 Sep 2006	31 Mar 2007
	NZ\$000	NZ\$000	NZ\$000
Operating Revenue	59,294	60,029	1,292,741
Normalised Operating Profit before Interest & Taxation*	13,371	13,175	29,157
- One Off Restructuring Costs	-	(472)	(591)
<b>Reported Operating Profit before Interest &amp; Taxation*</b>	<b>13,371</b>	<b>12,703</b>	<b>28,566</b>
<b>Finance Receivables</b>	<b>546,671</b>	<b>525,901</b>	<b>536,791</b>

\* Includes Operating Interest

The USA market continues to be depressed, with mixed predictions for the remainder of the year. Competitor activity remains intense as the major suppliers compete strongly to retain sales volumes.

Rest of World and European sales revenues are expected to continue their growth. The Italian factory and new European sales office are poised to take advantage of the opportunities presented.

Raw material pricing remains uncertain. Steel, plastics, chemicals and copper prices remain at high levels and their future price direction is unclear. The business continues to direct its focus to the ongoing cost out programme in order to minimise the effects of possible upward movement in raw materials and to improve margins.

New high end products like the *AquaSmart*<sup>™</sup> washer, *AeroSmart* dryer, *Ice & Water* refrigerators, *French Door* refrigerators as well as the *CookSurface* gas cooktop, maintain the Company's high end status. These are being progressively released into our established markets. The high end range has recently been expanded with the release of the mid sized models of the *AquaSmart*<sup>™</sup> washer into the Australian market.

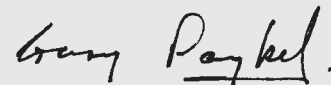
The Appliances business has recently entered into a strategic partnership with Turkey's largest appliance manufacturer, Arcelik Corporation. The alliance involves a wide range of possible co-operative activities between the two companies including distribution arrangements, sourcing opportunities and technical co-operation.

Arcelik will distribute Fisher & Paykel branded products in Eastern Europe, Commonwealth of Independent States (CIS) and the Middle East through its existing distribution network. The product range and suitable specifications are currently being determined. The financial benefits of this arrangement are not expected to commence until the 2008/09 fiscal year.

#### Finance

The Finance business will continue to expand the distribution of its finance products providing further opportunities for growth, particularly Q Card. Interest rates are expected to remain at current levels through the second half of the financial year. Households are expected to face difficulty servicing higher levels of domestic debt placing additional pressure on delinquency levels.

The full year result for the Finance business will be influenced by the levels of bad debt provisioning and the cost of funds. Lending volumes are expected to align with retail spending levels with the Christmas and New Year periods being particularly important for delivering growth.



**G A Paykel**

Chairman

8 November 2007

## ACCOUNTANTS' REPORT



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### Accountants' Report

To the shareholders of Fisher & Paykel Appliances Holdings Limited

We have reviewed the interim consolidated financial statements on pages 13 to 44. The interim consolidated financial statements provide information about the past consolidated financial performance and consolidated cash flows of the Group for the period ended 30 September 2007 and its consolidated financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 18 to 25.

### Directors' responsibilities

The Group's Directors are responsible for the preparation and presentation of the interim consolidated financial statements that present fairly the consolidated financial position of the Group as at 30 September 2007 and their consolidated financial performance and consolidated cash flows for the period ended on that date.

### Accountants' responsibilities

We are responsible for reviewing the interim consolidated financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim consolidated financial statements do not present fairly the matters to which they relate.

### Basis of opinion

A review is limited primarily to enquiries of Group personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the interim consolidated financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim consolidated financial statements of the Group for the period ended 30 September 2007 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in the Group or any of its subsidiaries other than in our capacity as accountants conducting this review, auditors of the annual financial statements and providers of accounting advisory services.

### Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements do not present fairly the financial position of the Group as at 30 September 2007 and its consolidated financial performance and consolidated cash flows for the period ended on that date.

Our review was completed on 8 November 2007 and our review opinion is expressed as at that date.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

Chartered Accountants

Auckland

## For the period ended 30 September 2007 (unaudited)

	Notes	CONSOLIDATED		
		30 September 2007 \$000	30 September 2006 \$000	31 March 2007 \$000
<b>Revenue</b>				
Operating revenue	4	687,387	695,945	1,410,870
Other income	4	5,687	737	8,211
Total revenue and other income		693,074	696,682	1,419,081
Operating profit before interest and taxation	5	49,893	49,860	114,141
Finance costs	6	(10,413)	(9,960)	(20,695)
Profit before income tax		39,480	39,900	93,446
Income tax expense		(10,190)	(14,786)	(30,009)
<b>Profit for the period</b>		<b>29,290</b>	<b>25,114</b>	<b>63,437</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company during the period:</b>				
		<b>Cents</b>	Cents	Cents
Basic earnings per share		10.3	9.2	22.8
Diluted earnings per share		10.1	8.9	22.2

The above Income Statement should be read in conjunction with the accompanying Notes.

# STATEMENT OF FINANCIAL POSITION

As at 30 September 2007 (unaudited)

	CONSOLIDATED			APPLIANCES BUSINESS			FINANCE BUSINESS		
	As at	As at	As at	As at	As at	As at	As at	As at	As at
	30 Sep	30 Sep	31 Mar	30 Sep	30 Sep	31 Mar	30 Sep	30 Sep	31 Mar
Notes	2007	2006	2007	2007	2006	2007	2007	2006	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>									
<b>Current assets</b>									
Cash and cash equivalents	55,426	71,030	76,776	23,993	31,162	45,304	31,433	39,868	31,472
Debtors and other current assets	189,452	194,421	198,915	185,917	189,743	194,612	3,535	4,678	4,303
Finance receivables	387,616	391,298	383,613				387,616	391,298	383,613
Inventories	286,054	249,544	233,674	286,054	249,544	233,674			
Non-current assets classified as held for sale	-	921	4,127	-	921	4,127			
Derivative financial instruments	1,037	3,257	6,308	77	3,006	5,795	960	251	513
Current tax receivables	6,680	15,161	7,430	6,680	13,080	7,430	-	2,081	-
Future taxation benefit	1,006	4,927	2,523	1,006	4,927	2,523			
<b>Total current assets</b>	<b>927,271</b>	<b>930,559</b>	<b>913,366</b>	<b>503,727</b>	<b>492,383</b>	<b>493,465</b>	<b>423,544</b>	<b>438,176</b>	<b>419,901</b>
<b>Non-current assets</b>									
Property, plant & equipment	321,208	342,578	329,502	319,455	340,510	327,374	1,753	2,068	2,128
Investment in Finance business				183,474	176,961	176,641			
Other non-current assets	1,905	1,964	1,870	909	947	846	996	1,017	1,024
Finance receivables	159,055	134,603	153,178				159,055	134,603	153,178
Intangible assets	328,546	342,248	336,124	189,660	197,800	194,297	138,886	144,448	141,827
Derivative financial instruments	484	2,285	523	484	2,285	523			
Deferred taxation	30,885	16,275	26,834	30,885	16,275	26,834			
<b>Total non-current assets</b>	<b>842,083</b>	<b>839,953</b>	<b>848,031</b>	<b>724,867</b>	<b>734,778</b>	<b>726,515</b>	<b>300,690</b>	<b>282,136</b>	<b>298,157</b>
<b>Total assets</b>	<b>1,769,354</b>	<b>1,770,512</b>	<b>1,761,397</b>	<b>1,228,594</b>	<b>1,227,161</b>	<b>1,219,980</b>	<b>724,234</b>	<b>720,312</b>	<b>718,058</b>
<b>Liabilities</b>									
<b>Current liabilities</b>									
Bank overdrafts	1,722	763	5,274	1,722	763	5,274			
Current finance leases	1,991	601	3,587	1,991	601	3,587			
Trade creditors	127,009	123,583	124,589	127,009	123,583	124,589			
Provisions	20,232	25,022	20,006	20,232	25,022	20,006			
Finance borrowings	484,813	470,669	476,381				484,813	470,669	476,381
Derivative financial instruments	2,010	575	857	2,010	575	857			
Current tax liabilities	4,539	-	527	3,454	-	-	1,085	-	527
Other current liabilities	75,088	74,581	73,098	56,185	50,309	50,122	18,903	24,272	22,976
<b>Total current liabilities</b>	<b>717,404</b>	<b>695,794</b>	<b>704,319</b>	<b>212,603</b>	<b>200,853</b>	<b>204,435</b>	<b>504,801</b>	<b>494,941</b>	<b>499,884</b>
<b>Non-current liabilities</b>									
Non-current borrowings	325,327	336,035	310,251	325,327	336,035	310,251			
Non-current finance leases	2,552	1,876	2,904	2,552	1,876	2,904			
Finance borrowings	10,155	15,842	11,298				10,155	15,842	11,298
Deferred taxation	35,456	33,450	39,777	10,342	2,127	10,950	25,114	31,323	28,827
Other non-current liabilities	4,878	13,645	13,028	4,188	13,021	12,339	690	624	689
Provisions	24,656	26,842	27,564	24,656	26,221	26,845	-	621	719
Derivative financial instruments	253	-	-	253	-	-			
<b>Total non-current liabilities</b>	<b>403,277</b>	<b>427,690</b>	<b>404,822</b>	<b>367,318</b>	<b>379,280</b>	<b>363,289</b>	<b>35,959</b>	<b>48,410</b>	<b>41,533</b>
<b>Total liabilities</b>	<b>1,120,681</b>	<b>1,123,484</b>	<b>1,109,141</b>	<b>579,921</b>	<b>580,133</b>	<b>567,724</b>	<b>540,760</b>	<b>543,351</b>	<b>541,417</b>
<b>Shareholders' equity</b>									
Contributed equity	8	642,082	639,298	642,082	639,298	639,463			
Retained earnings	9(a)	19,316	2,761	19,316	2,761	15,581			
Reserves	9(b)	(12,725)	4,969	(12,725)	4,969	(2,788)			
Investment in Finance business							183,474	176,961	176,641
<b>Total shareholders' equity</b>		<b>648,673</b>	<b>647,028</b>	<b>648,673</b>	<b>647,028</b>	<b>652,256</b>	<b>183,474</b>	<b>176,961</b>	<b>176,641</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,769,354</b>	<b>1,770,512</b>	<b>1,228,594</b>	<b>1,227,161</b>	<b>1,219,980</b>	<b>724,234</b>	<b>720,312</b>	<b>718,058</b>

The above Statement of Financial Position should be read in conjunction with the accompanying Notes.

# STATEMENT OF RECOGNISED INCOME & EXPENSE

For the period ended 30 September 2007 (unaudited)

	Notes	30 September	CONSOLIDATED	
		2007 \$'000	30 September 2006 \$'000	31 March 2007 \$'000
Exchange differences on translation of foreign operations	9	(4,161)	(1,620)	(9,686)
Cash flow hedges taken to equity, net of tax	9	(5,998)	6,314	7,450
Interest rate hedges taken to equity, net of tax	9	(243)	592	(157)
Commodity hedges taken to equity, net of tax	9	316	-	(273)
<b>Net income and expense recognised directly in equity</b>		<b>(10,086)</b>	5,286	(2,666)
<b>Profit for the period</b>		<b>29,290</b>	25,114	63,437
<b>Total recognised income and expense for the period</b>		<b>19,204</b>	30,400	60,771

The above Statement of Recognised Income & Expense should be read in conjunction with the accompanying Notes.

## CASH FLOW STATEMENT

For the period ended 30 September 2007 (unaudited)

	Notes	30 September	CONSOLIDATED	
		2007	30 September	31 March
		\$'000	2006	2007
			\$'000	\$'000
<b>Cash flows from / (used in) operating activities</b>				
Receipts from customers		640,024	617,191	1,248,898
Financing interest and fee receipts		56,833	64,156	124,612
Interest received		783	508	1,084
Payments to suppliers and employees		(654,769)	(622,932)	(1,209,894)
Income taxes paid		(13,125)	(12,279)	(19,318)
Interest paid		(29,261)	(27,469)	(58,614)
		485	19,175	86,768
Principal on loans repaid by Finance business customers		304,108	353,799	678,951
New loans to Finance business customers		(321,787)	(315,442)	(655,415)
<b>Net cash inflow / (outflow) from operating activities</b>	10	<b>(17,194)</b>	57,532	110,304
<b>Cash flows from / (used in) investing activities</b>				
Sale of property, plant & equipment		9,777	13,640	22,138
Purchase of property, plant & equipment		(16,421)	(22,538)	(40,949)
Capitalisation of intangible assets		-	-	(6,106)
Acquisition of Elba S.p.A.	11	-	(161,786)	(161,786)
<b>Net cash inflow / (outflow) from investing activities</b>		<b>(6,644)</b>	(170,684)	(186,703)
<b>Cash flows from / (used in) financing activities</b>				
Employee share purchase scheme		-	275	275
New non-current borrowings		26,853	345,048	341,554
New Finance business borrowings		141,133	124,789	216,114
Repayment of non-current borrowings		(3,738)	(212,811)	(219,052)
Repayment of Finance business borrowings		(134,147)	(175,242)	(266,977)
Issue of share capital		2,619	78,296	78,461
Dividends paid		(25,555)	(23,855)	(49,359)
<b>Net cash inflow / (outflow) from financing activities</b>		<b>7,165</b>	136,500	101,016
<b>Net increase / (decrease) in cash and cash equivalents</b>				
Cash and cash equivalents at the beginning of the period		71,502	48,494	48,494
Cash obtained from acquisitions		-	(9)	(9)
Effects of foreign exchange rate changes on cash and cash equivalents		(1,125)	(1,566)	(1,600)
<b>Cash and cash equivalents at end of the period</b>		<b>53,704</b>	70,267	71,502

The above Cash Flow Statement should be read in conjunction with the accompanying Notes.

# NOTES TO THE FINANCIAL STATEMENTS

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# NOTES TO THE FINANCIAL STATEMENTS

## 1 General information

The Group is a profit oriented limited liability entity incorporated and domiciled in New Zealand. Under dual listing rules for the New Zealand and Australian Stock Exchanges, the Company is required to have registered offices in each country and the addresses are:

- 78 Springs Road, East Tamaki, Auckland, New Zealand
- Weippin Street, Cleveland, Queensland 4163, Australia

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalent to International Accounting Standard 34 (Interim Financial Reporting).

The financial statements were authorised for issue by the Board of Directors on 8 November 2007.

The Group has two principal areas of business:

- Appliance manufacturer, distributor and marketer (Appliances business)
- Financial services in New Zealand (Finance business)

The Appliances business is a leading designer and manufacturer of major household appliances in New Zealand and Australia. The Appliances business has expanded in the USA and has manufacturing facilities in Huntington Beach, California and Clyde, Ohio. In mid-2006, it acquired Elba S.p.A. (now renamed Fisher & Paykel Appliances Italy S.p.A.) located in Borso del Grappa, Italy, which manufactures and distributes cookware products.

The Finance business is a leading provider of retail point of sale consumer finance (including the Farmers Card), insurance services and rental & leasing finance.

## 2 Summary of significant accounting policies

### (a) Basis of preparation of interim financial report

#### *Entities reporting and statutory base*

The consolidated financial statements are for the Fisher & Paykel Appliances Holdings Limited Group (the Group), which includes all its subsidiaries. The Group is a reporting entity for the purpose of the Financial Reporting Act 1993 and the financial statements comply with that Act and the Companies Act 1993. Reliance is placed on the Group continuing as a going concern.

The financial statements are stated in New Zealand dollars rounded to the nearest thousand unless otherwise indicated.

#### *Application of NZ IFRS1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

The consolidated interim financial statements of the Group have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). These are the Group's first interim financial statements prepared in accordance with NZ IAS34 Interim Financial Reporting. NZ IFRS1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied. The consolidated interim financial statements do not include all of the information required for full financial statements.

In preparing these consolidated interim financial statements in accordance with NZ IFRS1 the Group has applied certain optional exemptions from full retrospective application of NZ IFRS. Further details are given in Note 3.

#### *Historical cost convention*

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

#### *Critical accounting estimates*

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.

**(b) Principles of consolidation**

Subsidiaries are entities that are controlled either directly by the Parent Company or where the substance of the relationship between the Company and the entity indicates the Company controls it. A list of subsidiaries appears in the Annual Report. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date of acquisition or up to the date of disposal.

The Company and subsidiary company accounts (including special purpose entities) are consolidated using the purchase method of accounting. 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. 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.

All material intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with those adopted by the Group.

The Finance business, comprising Fisher & Paykel Finance Limited and Fisher & Paykel Financial Services Limited (and their respective subsidiary companies), is independently funded and is not guaranteed by the Parent Company or any other non-Finance business companies.

**(c) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

The Board has determined that the Group's primary segments are business and its secondary segments are geographic.

**(d) Foreign currency translation***(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The consolidated and parent financial statements are presented in New Zealand dollars, which is the Group's presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the hedged rate if financial instruments have been used to reduce exposure.

At balance date, monetary assets and liabilities in foreign currency are translated at the period-end closing or hedged rates.

Translation differences are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges or net investment hedges.

*(iii) Foreign Operations*

The financial statements of independent foreign operations with a different functional currency are translated to the presentation currency at the following exchange rates:

- period-end closing exchange rate for assets and liabilities
- monthly weighted average exchange rate for revenue and expense transactions

Exchange differences arising from the translation of any net investment in foreign operations and any related hedges are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## NOTES TO THE FINANCIAL STATEMENTS

### (e) Revenue recognition

#### (i) Sales of goods

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer.

#### (ii) Sales of services

Revenue from sales of services is recognised when the service, such as installation or repair of products, has been performed.

#### (iii) Long-term contracts

Revenue on long-term contracts is recognised over the period of the project, once the outcome can be estimated reliably. The stage of completion method is used to determine the appropriate amount of revenue to recognise at the Balance Sheet date. The stage of completion is determined by reference to contract terms agreed with the customer. The full amount of any expected loss, including that related to future work on the contract, is recognised in the Income Statement as soon as it becomes probable.

#### (iv) Income on Finance receivables

Income on Finance receivables is recognised on an actuarial basis (effective interest method) calculated on the net amount outstanding.

Yield related fees for Finance receivables are accrued to income over the term of the loan on an actuarial basis. Facility fee income on amounts advanced to bulk finance retailers is accrued to income on a straight-line basis over the term of the facility.

Fees charged to customer accounts in arrears are recognised as income at the time the fees are charged.

#### (v) Interest income

Interest income is recognised on a time-proportionate basis using the effective interest method, which takes into account the effective yield on the financial asset.

#### (vi) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

#### (vii) Dividend income

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

### (f) Government grants

Government grants include government assistance relating to specific research activities and also to encourage setup of operations in certain regions. Grants are deducted in reporting the expenses they are intended to compensate.

### (g) Income tax

The income tax expense for the period is the total of the tax payable on the current period's taxable income based on the income tax rate for each jurisdiction. This is then adjusted for any 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 any unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially 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 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 tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of temporary differences and it is probable that the differences 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) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised exclusive of GST, except for trade receivables and payables, which are recognised inclusive of GST.

## (i) Leases

### (i) Group as lessee

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases 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 term of the lease. Assets acquired under finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and any impairment losses.

### (ii) Group as lessor

Assets leased out to third parties under a finance lease are recognised as a receivable at an amount equal to the present value of the minimum lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

## (j) 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 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).

## (k) Impairment of financial assets

The Finance business classifies its receivables at amortised cost (using the effective yield method) less any impairment adjustment.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

At each balance date, Finance receivables are assessed for objective evidence of any impairment. Impairment losses are incurred if, and only if:

- (a) objective evidence exists of impairment as a result of (a) one or more events ("loss events") that occurred after the initial recognition of the asset and on or before the balance date; and
- (b) the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured.

Loss events include:

- significant financial difficulty of the issuer or obligor
- breach of contract, such as default or delinquency in interest principal payments
- granting of concessions to borrowers, for economic or legal reasons relating to the borrowers financial difficulty
- likelihood of the borrower entering bankruptcy or other financial reorganisation becomes probable
- disappearance of an active market for that financial asset because of financial difficulties
- adverse changes in the payment status of borrowers
- national or local economic conditions that correlate with defaults on Finance receivables

Assessment of Finance receivables is completed at both an individual (if significant) and group level. Receivables with similar credit risk characteristics are grouped together for the purpose of impairment assessment.

If impaired, the carrying amount of the receivable is reduced indirectly through the use of an allowance account and the amount of the loss is recognised in the Income Statement.

Realised and unrealised gains and losses arising from derecognition of these receivables are included in the Income Statement in the period in which they arise.

## NOTES TO THE FINANCIAL STATEMENTS

### (l) Insurance expenses (Finance business)

Provision has been made for the estimated cost of all claims reported at balance date but not settled. The outstanding claims reserve is calculated on the maximum potential value outstanding on the individual claims. Further provision has been made for claims incurred but not reported.

Claim handling expenses are calculated based on time and effort involved in claim processing.

### (m) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, bank overdrafts and other short-term, highly liquid investments with original 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. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

### (n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis and debts that are known to be uncollectable are written off immediately. A provision for doubtful debts is established when there is objective evidence that the Appliances business will not be able to collect all amounts due.

### (o) Inventories

Inventories are valued at the lower of cost, on a first-in, first-out basis, or net realisable value. Cost includes direct materials, direct labour, an appropriate proportion of variable and fixed overhead expenditure (the latter being allocated on the basis of normal operating capacity) but excludes finance, administration, research & development and selling & distribution overheads. Net realisable value is the estimated selling price in the ordinary course of business less all estimated costs of completion and the costs incurred in marketing, selling and distribution.

### (p) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held to maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition and management re-evaluates this designation at each balance date.

#### *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance date.

#### *Held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

#### *Loans & receivables*

Loans & receivables are non-derivative instruments with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are classified as non-current assets. Loans & Receivables are reported separately in Trade or Finance receivables on the Balance Sheet.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the company intends to dispose of the investment within 12 months of the balance date.

Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Held to maturity investments and loans & receivables are carried at amortised cost less impairment using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets through profit or loss category are recognised in the Income Statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the Income Statement as gains and losses from investment securities.

## (q) Insurance assets (Finance business)

Assets that back general insurance liabilities and which are held for trading are classified at fair value through profit or loss at inception. Other insurance assets with fixed or determinable payments, fixed maturities and which management has the intention and ability to hold, are classified as held to maturity at inception.

Acquisition costs relating to unearned premium are deferred as they represent a future benefit. Deferred acquisition costs are amortised in accordance with the earning pattern of the associated premium.

Reinsurance is expensed on a straight-line basis.

## (r) Derivatives

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk and interest rate risk including forward foreign exchange contracts, interest rate swaps and options.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. Recognition of the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

### (i) 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 equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled in the Income Statement in the periods 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 (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the asset or liability.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the hedge accounting criteria, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the Income Statement when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is immediately transferred to the Income statement.

### (ii) Net investment hedge

Hedges of net investments in foreign subsidiaries are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and the gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

### (iii) Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the Income Statement.

## (s) Non-current assets held for sale

Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell. Non-current assets are not depreciated or amortised while they are classified as held for sale.

## (t) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses if applicable. Historical cost includes all expenditure directly attributable to the acquisition or construction of the item, including interest.

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

Property, plant & equipment, other than Freehold Land and Capital Work-in-Progress, is depreciated on a straight-line basis over its estimated useful life as follows:

Buildings	50 years
Plant & equipment	3-15 years
Vehicles	5 years
Tooling	3 years

An asset's useful life is reviewed and adjusted, if appropriate, at each balance date.

## NOTES TO THE FINANCIAL STATEMENTS

### **(u) Intangible assets**

#### *(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

#### *(ii) Patents, trademarks and licences*

Patents, trademarks and licences are finite life intangible assets and are recorded at cost less accumulated amortisation and any impairment losses. Amortisation is charged on a straight line basis over their estimated useful lives, which vary from 10 to 20 years. The estimated useful life and amortisation method is reviewed at each balance date.

#### *(iii) Research & development*

Research expenditure is expensed as it is incurred. Development expenditure is expensed as incurred, unless that expenditure directly relates to new or improved products where the level of certainty of their future economic benefits and useful life is probable, in which case the expenditure is capitalised and amortised on a systematic basis reflecting the period of consumption of the benefit, which varies from 3-5 years.

#### *(iv) Computer software*

External software costs together with payroll and related costs for employees directly associated with the development of software are capitalised. Costs associated with upgrades and enhancements are capitalised to the extent they result in additional functionality. Amortisation is charged on a straight-line basis over the estimated useful life of the software of 3-10 years.

#### *(v) Acquired brands*

Acquired brands are not amortised on the basis that they have an indefinite useful life and are carried at fair value acquired less any accumulated impairment losses. The carrying amount of acquired brands is tested annually for impairment.

#### *(vi) Customer relationships*

Customer relationships are finite life intangible assets and are recorded at fair value acquired less accumulated amortisation and any impairment losses. Amortisation is charged on a straight line basis over their estimated useful life of 10 years. The estimated useful life and amortisation method is reviewed at each balance date.

### **(v) Borrowings and borrowing costs**

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

Borrowing costs are expensed, except for costs directly attributable to assets under construction, which are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

### **(w) Trade and other payables**

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchases of goods and services.

### **(x) Employee benefits**

#### *(i) Wages & salaries, annual leave and sick leave*

Liabilities for wages & 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.

#### *(ii) Long service leave*

Liabilities for long service leave, which are not expected to be settled within 12 months of the balance date are measured as the present value of estimated future cash outflows from the Group in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

#### *(iii) Defined contribution plan*

Contributions to the defined contribution superannuation plans are expensed when incurred.

*(iv) Defined benefit plan*

This plan is closed to new members and the majority of existing members transferred to the defined contribution plan on 1 October 2006. The defined benefit plan had 30 members at balance date. The cost of providing benefits is determined using the Projected Unit Credit Method, with independent actuarial valuations being carried out annually. All actuarial gains and losses at 1 April 2006, the date of transition to IFRS, have been recognised. Since transition, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation are charged or credited to income over the expected average remaining working lives of employees' participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Net provision for post-employment benefits in the Balance Sheet represents the present value of the Group's obligations at period end less market value of plan assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs.

Where the calculation results in a net benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

*(v) Share-based payments*

The Group operates equity-settled employee share option and share ownership schemes and a cash-settled share based payment scheme.

NZ IFRS 2 is applied to all share options granted and shares issued after 7 November 2002 that had not vested on 1 April 2006. The fair value of the share options and shares is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. The fair value of options granted is measured using a binomial model taking into consideration factors such as expected dividends and estimates of the number of options that are expected to become exercisable and shares expected to be distributed. Advances from within the Group fund the initial purchase of shares in the share ownership scheme, which is taken into consideration in arriving at fair value.

For the cash-settled scheme, the Group recognises an employee benefit expense over the life of the scheme and remeasures the fair value of the associated liability at each reporting date, with any change in fair value recognised in profit or loss for the period.

*(vi) Profit-sharing and bonus plans*

The Company recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(y) Insurance liabilities (Finance business)**

The liability for outstanding claims is recognised based on the present value of expected future payments for claims incurred. Expected future payments include amounts in relation to unpaid reported claims, claims incurred but not reported, claims incurred but not enough reported and costs expected to be incurred in settling these incurred claims.

At each balance date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, management considers current best estimates of future contractual cash flows, claims handling & administration expenses and investment income from the assets backing such liabilities. Any deficiency is immediately charged to the Income Statement.

**(z) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount recognised is the present value of the estimated expenditures.

*Warranty*

Provisions for warranty costs are recognised at the date of sale of the relevant products or when specific issues arise, at management's best estimate of the expenditure required to settle the Group's liability based on historical warranty trends. Warranty terms vary, but generally are 2 years parts & labour.

**(aa) Contributed Equity**

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

**(ab) Dividends**

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

**(ac) Changes in accounting policies**

The accounting policies have been provided in full as this is the first opportunity to disclose policies adopted by the Group under NZ IFRS.

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Transition to NZ IFRS

#### Basis of transition to NZ IFRS

##### Application of NZ IFRS1

The Group's financial statements for the period ended 30 September 2007 are the first interim financial statements that comply with NZ IFRS. These financial statements have been prepared as described in Note 2(a). The Group has applied NZ IFRS 1 in preparing these consolidated interim financial statements.

Fisher & Paykel Appliances Holdings Limited's transition date is 1 April 2006. The Group prepared its opening NZ IFRS Balance Sheet at that date. The reporting date of these financial statements is 30 September 2007. The Group's NZ IFRS adoption date was 1 April 2007.

In preparing these consolidated interim financial statements in accordance with NZ IFRS1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of NZ IFRS.

##### Exemptions from full retrospective application elected by the Group

The Group has elected to apply the following optional exemptions from full retrospective application.

###### (a) Business combinations exemption

The Group has applied the business combinations exemption in NZ IFRS1. Business combinations that took place prior to the 1 April 2006 transition date have not been restated.

###### (b) Fair value as deemed cost exemption

The Group has elected to measure selected parcels of land using fair value as deemed cost as at 1 April 2006.

###### (c) Employee benefits exemption

The Group has elected to recognise all cumulative actuarial gains and losses as at 1 April 2006.

###### (d) Cumulative translation differences exemption

The Group has elected to set the previously accumulated cumulative translation to zero at 1 April 2006. This exemption has been applied to all subsidiaries in accordance with NZ IFRS1.

###### (e) Share-based payment transaction exemption

The Group has elected to apply the share-based payment exemption. It applied NZ IFRS2 from 1 April 2006 to those options that were issued after 7 November 2002 but that had not vested by 1 April 2006.

##### Exceptions from full retrospective application followed by the Group

The Group has applied the following mandatory exceptions from retrospective application.

###### (f) Hedge accounting exception

Management has claimed hedge accounting from 1 April 2006 only if the hedge relationship meets all the hedge accounting criteria under NZ IAS39.

###### (g) Estimates exception

Estimates under NZ IFRS at 1 April 2006 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

##### Reconciliations between IFRS and previous NZ GAAP

The reconciliations in Note 15 provide a quantification of the effect of the transition to NZ IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 1 April 2006, 30 September 2006, 31 March 2007 and the second reconciliation provides an overview of profit for the period ended 30 September 2006 and year ended 31 March 2007.

## 4 Revenue and other income

	30 September 2007 \$'000	CONSOLIDATED 30 September 2006 \$'000	31 March 2007 \$'000
	<i>Sales revenue</i>		
New Zealand	121,701	120,152	241,366
Australia	208,760	198,281	425,385
USA	205,892	241,812	455,114
Europe	54,496	46,257	98,641
Rest of World	37,244	29,414	72,235
Finance business revenue	59,294	60,029	118,129
	<b>687,387</b>	695,945	1,410,870
<i>Other income</i>			
Interest income	405	737	1,084
Gains on disposal of property, plant & equipment (a)	4,993	-	7,127
Other	289	-	-
	<b>5,687</b>	737	8,211
	<b>693,074</b>	696,682	1,419,081

### (a) Net gains on disposal of property, plant & equipment

Net gains on disposal of property, plant & equipment for the period ended 30 September 2007 include a gain of \$5.0 million on the sale of land & buildings in East Tamaki, Auckland.

## 5 Segment information

### (a) Description of segments

#### Business segments

The Group is organised into the following main business segments:

#### *Appliances business*

Manufacturer, distributor and marketer of major household appliances.

#### *Finance business*

Financial services sector entirely within New Zealand.

#### Geographic segments

The Appliances business operates in the following geographic areas:

#### *New Zealand*

Comprises corporate head office, manufacturing operations in Auckland and Dunedin, customer services, sales and distribution operations.

#### *Australia*

Comprises a manufacturing operation in Cleveland, Brisbane; customer services, sales and distribution operations.

#### *USA*

Comprises manufacturing operations in Huntington Beach, California and Clyde, Ohio; and North American sales and distribution operations.

#### *Italy*

Comprises a manufacturing operation in Borso del Grappa, near Treviso; distribution operation and the Europe sales office.

#### *Thailand*

Comprises manufacturing assets under construction in Amata City, Rayong province.

#### *Overseas sales companies*

Comprises UK, Ireland, Singapore and Rest of World sales and distribution operations.

## NOTES TO THE FINANCIAL STATEMENTS

### (b) Segment analysis

For the period ended 30 September 2007

	APPLIANCES BUSINESS \$'000	FINANCE BUSINESS \$'000	CONSOLIDATED OPERATIONS \$'000
External operating revenue	628,093	59,294	687,387
Other income	5,656	31	5,687
<b>Total revenue and other income</b>	<b>633,749</b>	<b>59,325</b>	<b>693,074</b>
Cost of goods sold	(436,080)		
<b>Gross margin</b>	<b>197,669</b>		
Administration expenses	(81,441)		
Selling, marketing and distribution expenses	(79,706)		
Impairment charge for credit losses		(6,239)	
Interest expenses and similar charges		(19,814)	
Other Finance business expenses		(19,901)	
<b>Operating profit before interest, taxation and amortisation</b>	<b>39,710</b>	<b>16,885</b>	<b>56,595</b>
<b>Operating profit before interest and taxation</b>	<b>36,522</b>	<b>13,371</b>	<b>49,893</b>
Depreciation expense	(19,407)	(438)	(19,845)
Amortisation expense	(3,188)	(3,514)	(6,702)
Employee benefits expense	(146,371)	(8,204)	(154,575)
<sup>1</sup> One-off costs of Factory Relocation to Thailand*	(11,377)	-	(11,377)
<b>Total assets</b>	<b>1,045,120</b>	<b>724,234</b>	<b>1,769,354</b>

\* Includes staff redundancy costs of \$8.6 million also reported as part of employee benefits expense

For the period ended 30 September 2006

	APPLIANCES BUSINESS \$'000	FINANCE BUSINESS \$'000	CONSOLIDATED OPERATIONS \$'000
External operating revenue	635,916	60,029	695,945
Other income	704	33	737
<b>Total revenue and other income</b>	<b>636,620</b>	<b>60,062</b>	<b>696,682</b>
Cost of goods sold	(438,685)		
<b>Gross margin</b>	<b>197,935</b>		
Administration expenses	(85,169)		
Selling, marketing and distribution expenses	(75,609)		
Impairment charge for credit losses		(5,387)	
Interest expenses and similar charges		(19,750)	
Other Finance business expenses		(22,222)	
<b>Operating profit before interest, taxation and amortisation</b>	<b>39,921</b>	<b>16,364</b>	<b>56,285</b>
<b>Operating profit before interest and taxation</b>	<b>37,157</b>	<b>12,703</b>	<b>49,860</b>
Depreciation expense	(18,886)	(453)	(19,339)
Amortisation expense	(2,764)	(3,661)	(6,425)
Employee benefits expense	(134,279)	(8,644)	(142,923)
<sup>2</sup> One-off staff retrenchment & other costs	(2,663)	(472)	(3,135)
<b>Total assets</b>	<b>1,050,200</b>	<b>720,312</b>	<b>1,770,512</b>

For the year ended 31 March 2007

	APPLIANCES BUSINESS \$'000	FINANCE BUSINESS \$'000	CONSOLIDATED OPERATIONS \$'000
External operating revenue	1,292,741	118,129	1,410,870
Other income	8,145	66	8,211
<b>Total revenue and other income</b>	<b>1,300,886</b>	<b>118,195</b>	<b>1,419,081</b>
Cost of goods sold	(907,059)		
<b>Gross margin</b>	<b>393,827</b>		
Administration expenses	(151,224)		
Selling, marketing and distribution expenses	(157,028)		
Impairment charge for credit losses		(8,623)	
Interest expenses and similar charges		(37,748)	
Other Finance business expenses		(43,258)	
<b>Operating profit before interest, taxation and amortisation</b>	<b>93,495</b>	<b>36,650</b>	<b>130,145</b>
<b>Operating profit before interest and taxation</b>	<b>85,575</b>	<b>28,566</b>	<b>114,141</b>
Depreciation expense	(35,302)	(720)	(36,022)
Amortisation expense	(7,920)	(8,084)	(16,004)
Employee benefits expense	(268,201)	(16,531)	(284,732)
<sup>2</sup> One-off staff retrenchment & other costs	(5,934)	(591)	(6,525)
<b>Total assets</b>	<b>1,043,339</b>	<b>718,058</b>	<b>1,761,397</b>

1. These costs represent costs associated with relocating the New Zealand Laundry Products and Electronics Factories to Thailand

2. These costs represent staff redundancies and other costs due to the relocation of plant closer to our major markets, the integration of acquired businesses and component outsourcing

## (c) Notes to and forming part of the segment information

### (i) Inter-segment transfers

Inter-segment transactions between the Appliances and Finance businesses are immaterial and those that do occur are arm's length transactions.

## 6 Profit for the period

	30 September 2007 \$'000	CONSOLIDATED 30 September 2006 \$'000	31 March 2007 \$'000
<b>Profit before income tax includes the following specific expenses:</b>			
Depreciation	<b>19,845</b>	19,339	36,022
Amortisation	<b>6,702</b>	6,425	16,004
External interest expense <sup>1</sup>	<b>10,413</b>	9,960	20,695

<sup>1</sup> Excludes Finance business operating interest

## NOTES TO THE FINANCIAL STATEMENTS

### 7 Retirement benefit obligation

#### Superannuation scheme

At 31 March 2007, a \$9.4 million retirement benefit obligation was recognised in the Group Balance Sheet in respect of the defined benefit superannuation scheme, which was and remains closed to new members. As at 30 September 2007, only 30 members participate in this scheme, with the vast majority having transferred to the defined contribution scheme on 1 October 2006. To mitigate the risks associated with this liability, the Group paid \$8.4 million (including Specified Superannuation Contribution Withholding Tax) into the scheme during the period and the retirement benefit obligation as at 30 September 2007 was \$1.0 million.

### 8 Contributed equity

	30 September 2007 Shares	30 September 2006 Shares	31 March 2007 Shares	30 September 2007 \$'000	30 September 2006 \$'000	31 March 2007 \$'000
Opening balance of ordinary shares issued	283,453,478	264,742,568	264,742,568	639,463	560,121	560,121
Issues of ordinary shares during the period						
Issue of shares re acquisition of Elba S.p.A.	-	16,370,824	16,370,824	-	73,091	73,091
Exercise of options	1,154,829	2,120,472	2,340,086	2,619	5,205	5,370
Reclassified as Treasury Stock	-	-	-	-	(98)	(98)
Transfer from reserves	-	-	-	-	979	979
Closing balance of ordinary shares issued	284,608,307	283,233,864	283,453,478	642,082	639,298	639,463

In August 2006, \$979,000 was transferred from the share-based payments reserve to share capital on maturity of an Employee Share Scheme.

### 9 Retained earnings and reserves

#### (a) Retained earnings

	30 September 2007 \$'000	CONSOLIDATED 30 September 2006 \$'000	31 March 2007 \$'000
Balance at the beginning of the period	15,581	1,503	1,503
Net profit for the period	29,290	25,114	63,437
Dividends	(25,555)	(23,856)	(49,359)
Balance at the end of the period	19,316	2,761	15,581

#### (b) Reserves

	30 September 2007 \$'000	CONSOLIDATED 30 September 2006 \$'000	31 March 2007 \$'000
Treasury stock	512	512	512
Cash flow hedge reserve	(1,302)	3,560	4,696
Share-based payments reserve	1,831	1,487	1,682
Foreign currency translation reserve	(13,847)	(1,620)	(9,686)
Interest rate hedge reserve	38	1,030	281
Commodity hedge reserve	43	-	(273)
	(12,725)	4,969	(2,788)

In the Company financial statements, amounts showing as Treasury Stock in the Group financial statements are recorded as share capital. This increases share capital of the Parent Company by \$512,000 at 30 September 2007, 30 September 2006 and 31 March 2007.

## (c) Nature and purpose of reserves

### (i) Treasury Stock

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

### (ii) Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

### (iii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options granted but not exercised and discounted employee share scheme entitlements.

### (iv) Foreign currency translation reserve

Exchange differences arising on translation of the foreign operations are taken to the foreign currency translation reserve. The reserve is recognised in profit and loss when any net investment is disposed of.

### (v) Interest rate hedge reserve

The interest rate hedge reserve is used to record gains or losses on a hedging instrument in an interest rate hedge that are recognised directly in equity. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

### (vi) Commodity hedge reserve

The commodity hedge reserve is used to record gains or losses on a hedging instrument in a commodity hedge that are recognised directly in equity. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

## 10 Reconciliation of profit after income tax to net cash inflow from operating activities

	30 September 2007 \$'000	CONSOLIDATED 30 September 2006 \$'000	31 March 2007 \$'000
<b>Profit after taxation</b>	<b>29,290</b>	25,114	63,437
<b>Add/(deduct) non-cash items:</b>			
Depreciation and writedown of property, plant & equipment to recoverable amount	19,845	19,339	36,022
Amortisation of intangible assets	6,702	6,425	16,004
(Gain)/loss on sale of non-current assets	(4,993)	-	(7,127)
Finance business bad debts written off	7,730	4,986	10,249
Movement in accrued interest	2,126	3,358	3,249
Net increase/(decrease) in loans and advances to customers	(17,679)	38,357	23,536
Movement in provisions	(2,682)	(1,721)	(7,793)
Movement in tax	(2,093)	3,014	8,786
Movement in payables and accruals	(6,368)	(17,519)	(12,087)
Movement in debtors and other current assets	6,766	(13,081)	(17,766)
Movement in inventories	(52,380)	(8,642)	6,447
Fair value adjustment to derivative financial instruments	250	(232)	(484)
Non-cash share-based payment expense	387	444	640
Foreign currency exchange translation	(4,095)	(2,310)	(12,809)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(17,194)</b>	57,532	110,304

## NOTES TO THE FINANCIAL STATEMENTS

### 11 Business combination

On 15 June 2006, the company acquired all the shares in Elba S.p.A. (now renamed Fisher & Paykel Appliances Italy S.p.A.), a leading Italian manufacturer and distributor of cookware. Economic ownership transferred on 1 June 2006. The purchase consideration was €80.0 million, including €1.8 million of capitalised professional fees, with €41.0 million goodwill arising on acquisition.

Details of the fair value of the assets and liabilities finally determined as arising from the acquisition are as follows:

As at 1 June 2006:

	Acquiree's carrying amount	Fair value	Acquiree's carrying amount	Fair value
	€'000	€'000	\$'000	\$'000
Trade receivables	21,045	21,015	42,488	42,428
Inventories	13,569	12,598	27,328	25,343
Other current assets	1,674	1,674	3,381	3,381
Current liabilities	(32,855)	(32,855)	(66,565)	(66,565)
Property, plant & equipment	20,663	16,835	41,624	34,068
Provisions	(8,291)	(8,321)	(16,745)	(16,805)
Deferred taxation	-	(937)	-	(1,892)
Intangible assets:				
- Capitalised development	1,150	844	1,949	1,705
- Licenses	13,317	4,032	26,895	8,172
- Elba brand	4,642	10,179	9,401	20,656
- Customer relationships	-	18,988	-	38,448
- Goodwill*	45,106	35,968	92,030	72,847
<b>Net identifiable assets acquired</b>	<b>80,020</b>	<b>80,020</b>	<b>161,786</b>	<b>161,786</b>

\* Acquiree's carrying amount for goodwill includes €4.1 million of pre-acquisition goodwill

New Zealand dollar amounts are shown as at acquisition date.

The Group engaged an independent third party to assist in the determination of the fair value of intangible assets to facilitate a purchase price allocation. Brands and licenses were valued based on relief from royalty methodologies and customer relationships on a multi-period excess earnings approach. Goodwill is attributable to numerous revenue and cost synergies arising from the acquisition and was valued and allocated to cash generating units using a discounted cash flow analysis. No acquisition provisions were created.

Fair value of land & buildings at acquisition date was confirmed through an independent NZ IAS16 compliant valuation performed by American Appraisal Italia S.r.l.

There were no acquisitions in the period ended 30 September 2007.

### 12 Contingencies

As at 30 September 2007 the company had no contingent liabilities or assets (2006 \$Nil).

Periodically, the Group is party to litigation including product liability claims. To date, such claims have been settled for relatively small monetary amounts, which have either been expensed or covered by insurance

## 13 Commitments

### (a) Capital commitments

Capital expenditure contracted for at balance date but not recognised as liabilities is as follows:

	30 September	CONSOLIDATED	
	2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
Within one year	5,153	4,822	4,824
Between one and two years	1,540	1,459	1,540
<b>Total</b>	<b>6,693</b>	<b>6,281</b>	<b>6,364</b>

### (b) Lease commitments

#### (i) Operating leases

These relate mainly to building occupancy leases under non-cancellable operating leases expiring within two to ten years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	30 September	CONSOLIDATED	
	2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
<b>Commitments for minimum lease payments in relation to non-cancellable operating leases:</b>			
Within one year	<b>18,700</b>	19,909	20,526
Between one and two years	<b>18,846</b>	17,909	17,795
Between two and three years	<b>14,758</b>	15,371	14,454
Between three and four years	<b>11,341</b>	10,544	10,333
Between four and five years	<b>9,574</b>	7,358	7,967
Over five years	<b>27,785</b>	26,382	23,149
<b>Total</b>	<b>101,004</b>	<b>97,473</b>	<b>94,224</b>

### (c) Undrawn lending commitments

Undrawn lending commitments include unutilised credit card limits, which can be unconditionally cancelled at any time.

	30 September	CONSOLIDATED	
	2007	30 September 2006	31 March 2007
	\$'000	\$'000	\$'000
<b>Undrawn lending commitments (Finance business)</b>	<b>1,372,815</b>	1,264,093	1,318,952

## 14 Events occurring after the Balance Sheet date

On 8 November 2007, the Directors approved an interim dividend of 9 cents per share for the six months ended 30 September 2007, carrying a partial imputation credit of 2.25 cents per share (equivalent to 20 cents in the dollar). Non-resident shareholders will receive a supplementary dividend of 0.806 cents per share. The dividend will be paid on 5 December 2007.

## NOTES TO THE FINANCIAL STATEMENTS

### 15 Explanation of transition to New Zealand Equivalents to IFRS

#### (1) Reconciliation of equity reported under previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to equity under New Zealand Equivalents to IFRSs (NZ IFRS)

##### (a) At the date of transition to NZ IFRS: 1 April 2006

	Transition Notes	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
<b>Assets</b>				
<b>Current assets</b>				
Cash & cash equivalents		50,382	-	50,382
Debtors & other current assets		155,053	-	155,053
Finance receivables		377,952	-	377,952
Inventories		215,008	-	215,008
Non-current assets classified as held for sale	(4)(j)	-	921	921
Derivative financial instruments	(4)(d)	-	1,705	1,705
Current tax assets		23,412	-	23,412
Future taxation benefit		5,241	-	5,241
<b>Total current assets</b>		<b>827,048</b>	<b>2,626</b>	<b>829,674</b>
<b>Non-current assets</b>				
Property, plant and equipment	(4)(e), (j)	313,792	(4,618)	309,174
Other non-current assets		2,261	-	2,261
Finance receivables	(4)(f)	193,736	1,494	195,230
Intangible assets	(4)(j)	200,052	16,084	216,136
Derivative financial instruments	(4)(d)	-	653	653
Deferred tax assets	(4)(l)	23,762	7,462	31,224
<b>Total non-current assets</b>		<b>733,603</b>	<b>21,075</b>	<b>754,678</b>
<b>Total assets</b>		<b>1,560,651</b>	<b>23,701</b>	<b>1,584,352</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank overdrafts		1,888	-	1,888
Current borrowings		20,000	-	20,000
Current finance leases		624	-	624
Trade creditors		83,139	-	83,139
Provisions		26,473	237	26,710
Finance borrowings		501,562	-	501,562
Derivative financial instruments	(4)(d)	-	6,018	6,018
Current tax liabilities		2,223	-	2,223
Other current liabilities		63,092	-	63,092
<b>Total current liabilities</b>		<b>699,001</b>	<b>6,255</b>	<b>705,256</b>
<b>Non-current liabilities</b>				
Non-current borrowings		201,028	-	201,028
Non-current finance lease		2,302	-	2,302
Finance borrowings		36,980	-	36,980
Deferred tax liabilities	(4)(l)	18	36,063	36,081
Other current liabilities	(4)(g), (i),(k)	4,283	8,709	12,992
Provisions	(4)(i)	15,188	12,243	27,431
Derivative financial instruments	(4)(d)	-	539	539
<b>Total non-current liabilities</b>		<b>259,799</b>	<b>57,554</b>	<b>317,353</b>
<b>Total liabilities</b>		<b>958,800</b>	<b>63,809</b>	<b>1,022,609</b>
<b>Net assets</b>		<b>601,851</b>	<b>(40,108)</b>	<b>561,743</b>
<b>Equity</b>				
Contributed equity		560,535	(414)	560,121
Retained earnings	(4)(m)	43,881	(42,378)	1,503
Reserves	(4)(c), (h), (5)(d)	(2,565)	2,684	119
<b>Total equity</b>		<b>601,851</b>	<b>(40,108)</b>	<b>561,743</b>

**(b) At the end of the last interim reporting period under previous NZ GAAP: 30 September 2006**

	Transition Notes	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
<b>Assets</b>				
Current assets				
Cash and cash equivalents		71,037	(7)	71,030
Debtors and other current assets	(5)(c)	196,832	(2,411)	194,421
Finance receivables		391,352	(54)	391,298
Inventories		251,101	(1,557)	249,544
Non-current assets classified as held for sale	(4)(j)	-	921	921
Derivative financial instruments	(4)(d)	-	3,257	3,257
Current tax assets		15,161	-	15,161
Future taxation benefit		4,927	-	4,927
<b>Total current assets</b>		<b>930,410</b>	<b>149</b>	<b>930,559</b>
<b>Non-current assets</b>				
Property, plant and equipment	(4)(e), (j)	354,030	(11,452)	342,578
Other non-current assets		1,964	-	1,964
Finance receivables		134,879	(276)	134,603
Intangible assets	(4)(j)	312,885	29,363	342,248
Derivative financial instruments	(4)(d)	-	2,285	2,285
Deferred tax assets	(4)(l)	13,413	2,862	16,275
<b>Total non-current assets</b>		<b>817,171</b>	<b>22,782</b>	<b>839,953</b>
<b>Total assets</b>		<b>1,747,581</b>	<b>22,931</b>	<b>1,770,512</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank overdrafts		763	-	763
Current finance leases		601	-	601
Trade creditors		123,583	-	123,583
Provisions		24,727	295	25,022
Finance borrowings		471,591	(922)	470,669
Derivative financial instruments	(4)(d)	-	575	575
Current tax liabilities		-	-	-
Other current liabilities		73,398	1,183	74,581
<b>Total current liabilities</b>		<b>694,663</b>	<b>1,131</b>	<b>695,794</b>
<b>Non-current liabilities</b>				
Non-current borrowings		336,035	-	336,035
Non-current finance leases		1,876	-	1,876
Finance borrowings		15,842	-	15,842
Deferred tax liabilities	(4)(l)	-	33,450	33,450
Other non-current liabilities	(4)(g), (i), (k)	4,526	9,119	13,645
Provisions	(4)(i)	14,353	12,489	26,842
<b>Total non-current liabilities</b>		<b>372,632</b>	<b>55,058</b>	<b>427,690</b>
<b>Total liabilities</b>		<b>1,067,295</b>	<b>56,189</b>	<b>1,123,484</b>
<b>Net assets</b>		<b>680,286</b>	<b>(33,258)</b>	<b>647,028</b>
<b>Equity</b>				
Contributed equity		638,831	467	639,298
Retained earnings	(4)(m)	45,638	(42,877)	2,761
Reserves	(4)(h), (c), (5)(d)	(4,183)	9,152	4,969
<b>Total equity</b>		<b>680,286</b>	<b>(33,258)</b>	<b>647,028</b>

## NOTES TO THE FINANCIAL STATEMENTS

(c) At the end of the last reporting period under previous NZ GAAP: 31 March 2007

	Transition Notes	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		76,773	3	76,776
Debtors and other current assets	(5)(c)	201,351	(2,436)	198,915
Finance receivables		383,779	(166)	383,613
Inventories		235,390	(1,716)	233,674
Non-current assets classified as held for sale	(4)(j)	-	4,127	4,127
Derivative financial instruments	(4)(d)	-	6,308	6,308
Current tax assets		6,933	497	7,430
Other current assets		2,523	-	2,523
<b>Total current assets</b>		<b>906,749</b>	<b>6,617</b>	<b>913,366</b>
<b>Non-current assets</b>				
Property, plant and equipment	(4)(e), (j)	344,799	(15,297)	329,502
Other non-current assets		1,861	9	1,870
Finance receivables		153,178	-	153,178
Intangible assets	(4)(j)	305,919	30,205	336,124
Derivative financial instruments	(4)(d)	-	523	523
Deferred tax assets	(4)(l)	26,784	50	26,834
<b>Total non-current assets</b>		<b>832,541</b>	<b>15,490</b>	<b>848,031</b>
<b>Total assets</b>		<b>1,739,290</b>	<b>22,107</b>	<b>1,761,397</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank overdrafts		5,274	-	5,274
Current finance leases		3,587	-	3,587
Trade creditors		124,589	-	124,589
Provisions		19,820	186	20,006
Finance borrowings		476,381	-	476,381
Derivative financial instruments	(4)(d)	-	857	857
Current tax liabilities		1,829	(1,302)	527
Other current liabilities		73,098	-	73,098
<b>Total current liabilities</b>		<b>704,578</b>	<b>(259)</b>	<b>704,319</b>
<b>Non-current liabilities</b>				
Non-current borrowings		310,251	-	310,251
Non-current finance leases		2,904	-	2,904
Finance borrowings		11,298	-	11,298
Deferred tax liabilities	(4)(l)	8,822	30,955	39,777
Other non-current liabilities	(4)(g), (k)	4,627	8,401	13,028
Provisions	(4)(i)	14,363	13,201	27,564
<b>Total non-current liabilities</b>		<b>352,265</b>	<b>52,557</b>	<b>404,822</b>
<b>Total liabilities</b>		<b>1,056,843</b>	<b>52,298</b>	<b>1,109,141</b>
<b>Net assets</b>		<b>682,447</b>	<b>(30,191)</b>	<b>652,256</b>
<b>Equity</b>				
Contributed equity		638,996	467	639,463
Retained earnings	(4)(m)	55,702	(40,121)	15,581
Reserves	(4)(c), (h), (5)(d)	(12,251)	9,463	(2,788)
<b>Total equity</b>		<b>682,447</b>	<b>(30,191)</b>	<b>652,256</b>

## (2) Reconciliation of profit under previous NZ GAAP to profit under New Zealand Equivalents to IFRSs (NZ IFRS)

### (a) Reconciliation of profit for the period ended 30 September 2006

Transition Notes	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
<b>Revenue</b>			
Operating revenue	695,945	-	695,945
Other income	737	-	737
<b>Total revenue and other income</b>	<b>696,682</b>	<b>-</b>	<b>696,682</b>
Operating profit before interest and taxation	51,112	(1,252)	49,860
Finance costs	(9,960)	-	(9,960)
<b>Profit before income tax</b>	<b>41,152</b>	<b>(1,252)</b>	<b>39,900</b>
Income tax expense	(15,538)	752	(14,786)
<b>Profit for the period</b>	<b>25,614</b>	<b>(500)</b>	<b>25,114</b>

### (b) Reconciliation of profit for the year ended 31 March 2007

Transition Notes	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
<b>Revenue</b>			
Operating revenue	1,410,870	-	1,410,870
Other income	1,084	7,127	8,211
(4)(b)			
<b>Total revenue and other income</b>	<b>1,411,954</b>	<b>7,127</b>	<b>1,419,081</b>
Operating profit before interest and taxation	114,513	(372)	114,141
Finance costs	(20,695)	-	(20,695)
<b>Profit before income tax</b>	<b>93,818</b>	<b>(372)</b>	<b>93,446</b>
Income tax expense	(32,638)	2,629	(30,009)
<b>Profit for the year</b>	<b>61,180</b>	<b>2,289</b>	<b>63,437</b>

## (3) Reconciliation of cash flow statement for the year ended 31 March 2007

The adoption of NZ IFRS has not resulted in any material adjustments to the cash flow statement other than loan advances/loans repaid in the Finance business, which on transition are reclassified as operating activities from investing activities.

## (4) Notes to the reconciliations

### (a) Goodwill and amortisation

Goodwill is no longer amortised under NZ IFRS but is reviewed on an annual basis for impairment and when an indicator of impairment exists. The Group has reviewed its goodwill balances and determined there is no impairment. The effect of the transition adjustment to Goodwill amortisation is shown below.

Fair value movements arising from the Elba S.p.A. (since renamed Fisher & Paykel Appliances Italy S.p.A.) acquisition in June 2006 result in adjustments to amortisation expense on certain intangible assets. The effects of this are as below:

#### (i) At 1 April 2006

No effect on the Group or parent entity.

#### (ii) At 30 September 2006

Increase in goodwill and retained earnings of \$2.7 million. There is no effect on the parent entity.

Decrease in intangible assets of \$1.2 million and retained earnings of \$0.7 million (net of tax). There is no effect on the parent entity.

## NOTES TO THE FINANCIAL STATEMENTS

*(iii) At 31 March 2007*

Increase in goodwill and retained earnings of \$5.9 million. There is no effect on the parent entity.

Decrease in intangible assets of \$2.9 million and retained earnings of \$1.8 million (net of tax). There is no effect on the parent entity.

*(iv) For the period ended 30 September 2006*

A net decrease in amortisation expense of \$1.5 million.

*(v) For the year ended 31 March 2007*

A net decrease in amortisation expense of \$2.9 million.

**(b) Gains on sale of property, plant & equipment**

Consistent with the NZ Framework, gains on sale of property, plant & equipment have been reclassified from expenses to other income. The effects of this are as shown below:

*(i) At 1 April 2006, 30 September 2006 and 31 March 2007*

No effect on the Group or parent entity.

*(ii) For the period ended 30 September 2006*

No effect on the Group or parent entity.

*(iii) For the year ended 31 March 2007*

An increase in other income of \$7.1 million and a corresponding decrease in administration expenses.

**(c) Foreign currency translation reserve: cumulative translation differences**

The company has elected to apply the exemption in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero at the date of transition to NZ IFRS. The effect of this is as below:

*(i) At 1 April 2006, 30 September 2006 and 31 March 2007*

The \$2.6 million debit balance in the foreign currency translation reserve is reduced to zero and retained earnings are decreased by this amount.

There is no effect on the parent entity.

**(d) Derivative financial instruments**

Under NZ IFRS, all derivative financial instruments, whether used as hedging instruments or otherwise, have been recognised at fair value in the Balance Sheet. Further detail on derivatives is reported at section (5)(d) of this Note.

The effects of this are as below:

*(i) At 1 April 2006*

An increase in derivative financial assets of \$2.4 million, an increase in derivative financial liabilities of \$6.6 million and a decrease in retained earnings of \$1.8 million (net of tax and reserve movements). There is no effect on the parent entity.

*(ii) At 30 September 2006*

An increase in derivative financial assets of \$5.5 million, an increase in derivative financial liabilities of \$0.6 million and a increase in retained earnings of \$0.3 million (net of tax and reserve movements). There is no effect on the parent entity.

*(iii) At 31 March 2007*

An increase in derivative financial assets of \$6.8 million, an increase in derivative financial liabilities of \$0.9 million and an increase in retained earnings of \$0.7 million (net of tax and reserve movements). There is no effect on the parent entity.

*(iv) For the period ended 30 September 2006*

A fair value gain of \$0.3 million and an increase of \$0.1 million in income tax expense. There is no effect on the parent entity.

*(v) For the year ended 31 March 2007*

A fair value gain of \$0.6 million and an increase in income tax expense of \$0.2 million. There is no effect on the parent entity.

**(e) Carrying value of land**

Under NZ IFRS 1 entities are permitted to adjust the carrying value of selected fixed assets to their fair value and use that fair value as deemed cost at the date of transition. The Group has elected to revalue certain parcels of land within New Zealand. This land was valued with an effective date of 1 April 2006 by Extensor Advisory Limited. The basis of the valuation is fair value being the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The effect of this is as below:

*(i) At 1 April 2006, 30 September 2006 and 31 March 2007*

An increase in both retained earnings and property, plant & equipment of \$12.4 million. There is no effect on the parent entity.

*(ii) For the period ended 30 September 2006 and year ended 31 March 2007*

There is no effect on the Group or parent entity.

**(f) Finance business receivables**

Under NZ IFRS, Finance business receivables are assessed for objective evidence of impairment at each balance date, calculated as the difference between the carrying amount of the loan and the present value of future expected cashflows associated with the loan discounted at the loan's original effective interest rate.

Significant loans were individually assessed for impairment while smaller loans were impairment tested in portfolios based on similar risk profiles. Objective evidence of impairment was based on historical experience for such portfolios, adjusted to reflect current conditions at each balance date.

Under previous NZ GAAP, a specific provision was maintained to cover all identified doubtful debts and a general provision was maintained to cover all unidentifiable possible losses and latent risks inherent in the overall portfolio of loans.

The effects of this are as below:

*(i) At 1 April 2006*

A decrease in loan impairment on loans (previously provision for doubtful debts) of \$1.5 million with an increase in retained earnings of \$1.0 million (net of tax). There is no effect on the parent entity.

*(ii) At 30 September 2006*

An increase of \$1.8 million in loan impairment on loans (previously provision for doubtful debts) and a decrease in retained earnings of \$1.2 million (net of tax). There is no effect on the parent entity.

*(iii) At 31 March 2007*

There is no effect on the Group or parent entity.

*(iv) For the period ended 30 September 2006*

An increase of \$0.3 million in loan impairment expense and a decrease in income tax expense of \$0.1 million. There is no effect on the parent entity.

*(v) For the year ended 31 March 2007*

There is no effect on the Group or parent entity.

## NOTES TO THE FINANCIAL STATEMENTS

### (g) Retirement benefit obligations

The Group sponsors a superannuation plan with both a defined benefit section (now closed with 30 members remaining) and a defined contribution section. Under previous NZ GAAP, cumulative actuarial gains and losses on the defined benefit section were not recognised on the Balance Sheet. At the date of transition a liability is recognised in the provision for employee benefits. It is measured as the difference between the present value of the employees' accrued benefits at that date and the net market value of the superannuation fund's assets at that date. The effect of this is as below:

*(i) At 1 April 2006 and 30 September 2006*

An increase of \$10.6 million in retirement benefit obligations and a decrease in retained earnings of \$7.1 million (net of tax). There is no effect on the parent entity.

*(ii) At 31 March 2007*

An increase of \$9.4 million in retirement benefit obligations and a decrease in retained earnings of \$6.3 million (net of tax). There is no effect on the parent entity.

*(iii) For the period ended 30 September 2006*

There is no effect on the Group or parent entity.

*(iv) For the year ended 31 March 2007*

A decrease in employee benefits expense of \$1.2 million and an increase in income tax expense of \$0.4 million. There is no effect on the parent entity.

### (h) Share-based payments

Under NZ IFRS 2 *Share-based Payment* from 1 April 2006 the Group is required to recognise an expense for options and shares that were granted to employees under the Company's various option and share ownership plans after 7 November 2002 but that had not vested by 1 January 2007. The effect of this is shown below.

In accordance with NZ IAS32 and NZ SIC15, the Group has recorded shares held by the trustee of the Fisher & Paykel Appliances Share Purchase Scheme as treasury stock until the shares vest, are reissued or otherwise disposed of, when any consideration received will then be included in the Group's contributed equity. The effect of this is as below.

*(i) At 1 April 2006*

A decrease in retained earnings of \$2.0 million and a corresponding increase in reserves. The effect is the same for the parent entity.

An increase in treasury stock of \$0.4 million with a corresponding decrease in contributed equity. There is no effect on the parent entity.

*(ii) At 30 September 2006*

A decrease in retained earnings of \$2.5 million and a corresponding increase in reserves and on maturity of an employee share purchase scheme in August 2006, a decrease in reserves of \$1.0 million and an increase in contributed equity of \$1.0 million. The effect is the same for the parent entity.

An increase in treasury stock of \$0.5 million with a corresponding decrease in contributed equity. There is no effect on the parent entity.

*(iii) At 31 March 2007*

A decrease in retained earnings of \$2.7 million and a corresponding increase in reserves and on maturity of an employee share purchase scheme in August 2006, a decrease in reserves of \$1.0 million and an increase in contributed equity of \$1.0 million. The effect is the same for the parent entity.

An increase in treasury stock of \$0.5 million and a corresponding decrease in contributed equity. There is no effect on the parent entity.

*(iv) For the period ended 30 September 2006*

For the Group and the parent entity, an increase in employee benefits expense of \$0.4 million.

*(v) For the year ended 31 March 2007*

For the Group and the parent entity, an increase in employee benefits expense of \$0.6 million.

## (i) Other long-term employee benefits

Under NZ IFRS, the Group is required to recognise long service leave on an actuarial basis, whereas under previous NZ GAAP, the benefit was only recognised when it had accrued to employees and was fully vested. The effect of this is shown below:

In addition, both vested and unvested long service leave are now disclosed as provisions, which has resulted in reclassification of amounts previously disclosed for vested benefits from other non-current liabilities to provisions.

### (i) At 1 April 2006

An increase in the provision for employee benefits of \$8.0 million and a decrease in retained earnings of \$5.3 million (net of tax). There is no effect on the parent entity.

\$4.3 million reclassified from Other non-current liabilities to Provisions.

### (ii) At 30 September 2006

An increase in the provision for employee benefits of \$8.0 million and a decrease in retained earnings of \$5.3 million (net of tax). There is no effect on the parent entity.

\$4.5 million reclassified from Other non-current liabilities to Provisions.

### (iii) At 31 March 2007

An increase in the provision for employee benefits of \$8.6 million and a decrease in retained earnings of \$5.7 million (net of tax). There is no effect on the parent entity.

\$4.6 million reclassified from Other non-current liabilities to Provisions.

### (iv) For the period ended 30 September 2006

There is no effect on the Group or parent entity.

### (v) For the year ended 31 March 2007

An increase in employee benefits expense of \$0.6 million. There is no effect on the parent entity.

## (j) Reclassification of property, plant & equipment

Under NZ IFRS, software, patents & trademarks are classified as part of intangible assets rather than property, plant & equipment. This has resulted in reclassifications between intangible assets and property, plant & equipment as shown below. While the amount previously depreciated on these assets is unchanged, it is now classified as amortisation.

Under NZ IFRS5, non-current assets meeting specified criteria are reclassified as held for sale in current assets and depreciation ceases. This has resulted in reclassification between non-current assets held for sale and property, plant & equipment as shown below. Depreciation is unaffected as the assets involved were primarily land and the reclassification occurred at or near balance date.

There is no effect on the parent entity.

### (i) At 1 April 2006

An increase in intangible assets of \$16.1 million with a corresponding decrease in property, plant & equipment.

An increase in non-current assets held for sale of \$0.9 million and a corresponding decrease in property, plant & equipment.

### (ii) At 30 September 2006

An increase in intangible assets of \$15.4 million with a corresponding decrease in property, plant & equipment.

An increase in non-current assets held for sale of \$0.9 million and a corresponding decrease in property, plant & equipment.

### (iii) At 31 March 2007

An increase in intangible assets of \$16.5 million with a corresponding decrease in property, plant & equipment.

An increase in non-current assets held for sale of \$4.1 million and a corresponding decrease in property, plant & equipment.

### (iv) For the period ended 30 September 2006 and the year ended 31 March 2007

There is no effect on the Group or parent entity.

## NOTES TO THE FINANCIAL STATEMENTS

### (k) Leases

Under NZ IFRS, the Group is required to expense operating lease payments on a straight-line basis where there is a fixed increase in rentals, regardless of the basis of making those payments. The effect of this is as below:

#### (i) At 1 April 2006

An increase in accrued rental expenses of \$2.4 million and a decrease in retained earnings of \$1.6 million (net of tax). There is no effect on the parent entity.

#### (ii) At 30 September 2006

An increase in accrued rental expenses of \$3.1 million and a decrease in retained earnings of \$2.0 million (net of tax). There is no effect on the parent entity.

#### (iii) At 31 March 2007

An increase in accrued rental expenses of \$3.6 million and a decrease in retained earnings of \$2.4 million (net of tax). There is no effect on the parent entity.

#### (iv) For the period ended 30 September 2006

An increase in rental expense of \$0.7 million. There is no effect on the parent entity.

#### (v) For the year ended 31 March 2007

An increase in rental expense of \$1.2 million. There is no effect on the parent entity.

### (l) Deferred tax

Under previous NZ GAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of NZ IFRS has resulted in a change in accounting policy. The application of NZ IAS 12 *Income Taxes* has resulted in the recognition of deferred tax assets and liabilities on the items listed in the table below.

Under NZ IAS12, an additional deferred tax asset has been recognised in respect of the DCS brand. On transition this amounts to \$4.0 million and transposes over the remaining useful tax life to a deferred tax liability. There is no effect on the parent entity.

Under NZ IAS12, an additional deferred tax liability of \$35.3 million has been recognised on transition in respect of the Farmers Finance licenses, which crystallises over the finite life of the licenses. There is no effect on the parent entity.

Under previous NZ GAAP the benchmark for recognition of a deferred tax asset was "virtual certainty" of recovery while under NZ IFRS the benchmark for recovery is "probable". This results in an additional deferred tax asset of \$0.7m being recognised as at 31 March 2007 in respect of a tax credit available in the USA for production of qualifying laundry products.

The effects on deferred tax of the adoption of NZ IFRS are as follows:

	Transition Notes	1 April 2006 \$'000	30 September 2006 \$'000	31 March 2007 \$'000
Adjustments arising from adoption of NZ IAS 12		3,860	7,273	6,595
Application of NZ IAS 12 to adjustments arising from adoption of other NZ IASs				
DCS Brand		(3,998)	(2,963)	(1,982)
Farmers Finance licenses		35,285	34,281	33,278
Derivative financial instruments	(4)(d)	(74)	(284)	1,971
Retirement benefit obligation	(4)(g)	(3,502)	(3,502)	(3,097)
Other long term employee benefits	(4)(i)	(2,627)	(2,627)	(2,829)
Loan impairment	(4)(f)	493	(91)	-
Leases	(4)(k)	(836)	(1,061)	(1,268)
Fair value adjustment		-	(438)	(1,095)
USA tax credit		-	-	(668)
<b>Increase in deferred tax liability</b>		<b>28,601</b>	<b>30,588</b>	<b>30,905</b>

## (m) Retained earnings

The effect on retained earnings of the changes set out above are as follows:

	Transition	1 April 2006	30 September 2006	31 March 2007
	Notes	\$'000	\$'000	\$'000
Foreign currency translation reserve		(2,565)	(2,565)	(2,565)
Property, plant and equipment	(4)(c)	12,387	12,387	12,387
Goodwill amortisation	(4)(a)	-	2,706	5,880
Derivative financial instruments	(4)(d)	(1,809)	324	721
Share based payments	(4)(h)	(2,021)	(2,465)	(2,661)
Retirement benefit obligation	(4)(g)	(7,111)	(7,111)	(6,289)
Other long-term employee benefits	(4)(i)	(5,333)	(5,333)	(5,744)
Loan impairment	(4)(f)	1,001	(185)	-
Leases	(4)(k)	(1,543)	(1,974)	(2,374)
Fair value adjustments		-	(738)	(1,844)
Other adjustments		(159)	(220)	(818)
Deferred tax	(4)(l)	(35,225)	(37,703)	(36,814)
<b>Total adjustment to retained earnings</b>		<b>(42,378)</b>	<b>(42,877)</b>	<b>(40,121)</b>

## (5) Other effects of the transition to NZ IFRSs

### (a) Business combinations

On transition to NZ IFRS, the Group has elected to apply the exemption available in NZ IFRS1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and has not restated business combinations that took place prior to the transition date.

### (b) Investments in subsidiaries

On transition to NZ IFRS, the parent entity has restated investments in subsidiaries at cost consistent with NZ IAS27. This results in the elimination of the parent entity's asset revaluation reserve at each balance date, with a corresponding adjustment to investments in subsidiaries.

### (c) Reclassification from previous NZ GAAP

Changes in the mark-to-market value of de-designated forward foreign exchange derivatives were held in other current assets under previous NZ GAAP to offset against the movement in cash receipts from the sales they had been hedged against. These amounts have been reclassified under NZ IFRS to the fair value of derivative financial instruments. The effect of this are as below:

#### (i) At 30 September 2006

A decrease in other current assets of \$1.2 million and a corresponding increase in the fair value of derivatives. There is no effect on the parent entity.

#### (ii) At 31 March 2007

A decrease in other current assets of \$1.2 million and a corresponding increase in the fair value of derivatives. There is no effect on the parent entity.

## NOTES TO THE FINANCIAL STATEMENTS

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### (d) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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.

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

#### *(i) 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 equity in either the cash flow hedge reserve, commodity hedge reserve or interest rate hedge reserve. The gain or loss relating to any ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, 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. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

#### *(ii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

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John W Gilks – Deputy Chairman  
John H Bongard – Chief Executive Officer  
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