SKELLERUP

Financial Statements

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To the Shareholders of Skellerup Holdings Limited

Report on the Financial Statements

We have audited the financial statements of Skellerup Holdings Limited and its subsidiaries on pages 24 to 72, which comprise the balance sheet of Skellerup Holdings Limited and the group as at 30 June 2011, and the statement of comprehensive income, income statement, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Ernst & Young provides other assurance and consulting services to the company and group.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 24 to 72:

> Comply with generally accepted accounting practice in New Zealand;

> Comply with International Financial Reporting Standards; and

> Give a true and fair view of the financial position of Skellerup Holdings Limited and the group as at 30 June 2011 and the financial performance and cashflows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

> We have obtained all the information and explanations that we have required.

> In our opinion proper accounting records have been kept by Skellerup Holdings Limited as far as appears from our examination of those records.

Ernst & Young

24 August 2011
Auckland

Director’s Responsibility Statement

For the year ended 30 June 2011

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of Skellerup Holdings Limited and the Group as at 30 June 2011, and the results of their operations and cash flows for the year ended 30 June 2011.

The Directors consider that the financial statements of the Company and the Group have been prepared using accounting policies appropriate to the Company and Group circumstances, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

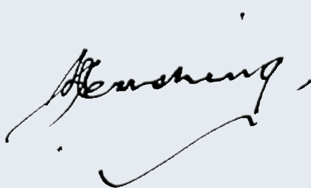
The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Financial Reporting Act 1993.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the financial statements of Skellerup Holdings Limited for the year ended 30 June 2011.

This Annual Report is dated 24 August 2011 and is signed in accordance with a resolution of the Directors made pursuant to section 211 of the Companies Act 1993.

For and on behalf of the Directors



Sir Selwyn Cushing
Chairman of the Board of Directors

E.M. Coutts
Director

Financial Statements

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

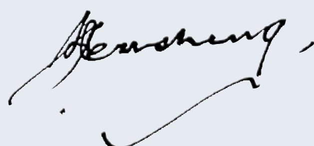
	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
REVENUE					
Operating revenue	2	**193,593**	180,719	**8,506**	8,747
Less cost of sales		**116,210**	110,881	**-**	-
GROSS PROFIT		**77,383**	69,838	**8,506**	8,747
Plus other income	3	**5,913**	1,087	**43**	31
TOTAL INCOME		**83,296**	70,925	**8,549**	8,778
Less distribution expenses		**12,339**	13,085	**-**	-
Less marketing expenses		**16,053**	14,312	**-**	-
Less administration expenses		**18,545**	21,838	**1,694**	2,959
Less Canterbury earthquakes expenses	6	**4,132**	-	**-**	-
PROFIT FOR THE YEAR BEFORE TAX AND FINANCE COSTS		**32,227**	21,690	**6,855**	5,819
Less finance costs	4	**2,667**	4,785	**690**	1,276
PROFIT FOR THE YEAR BEFORE TAX		**29,560**	16,905	**6,165**	4,543
Less income tax expense	5	**9,360**	4,947	**425**	75
Net profit for the year attributable to owners of the parent		**20,200**	11,958	**5,740**	4,468
EARNINGS PER SHARE					
Basic earnings per share	19	**10.504**	6.807	-	-
Diluted earnings per share	19	**10.504**	6.807	-	-

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

BALANCE SHEET AS AT 30 JUNE 2011

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
CURRENT ASSETS					
Cash and cash equivalents	7	**12,766**	9,567	**1,579**	630
Trade and other receivables	8	**40,658**	39,312	**110**	131
Inventories	9	**28,437**	28,159	**-**	-
Income tax receivable	5	**347**	329	**-**	37
Derivative financial assets	20	**430**	275	**-**	-
Investments and advances	12	**1,000**	-	**-**	-
Total Current Assets		**83,638**	77,642	**1,689**	798
NON-CURRENT ASSETS					
Property, plant and equipment	10	**37,751**	38,652	**4**	-
Deferred tax assets	5	**2,646**	2,536	**15**	3
Goodwill	11	**45,543**	46,031	**-**	-
Intangible assets	11	**4,258**	4,877	**-**	-
Derivative financial assets	20	**95**	40	**-**	-
Investments and advances	12	**-**	3,000	**74,523**	76,729
Total Non-Current Assets		**90,293**	95,136	**74,542**	76,732
Total Assets		**173,931**	172,778	**76,231**	77,530
CURRENT LIABILITIES					
Trade and other payables	13	**23,918**	22,634	**667**	958
Provisions	14	**8,047**	6,273	**28**	10
Interest bearing loans and borrowings	15	**94**	115	**-**	-
Income tax payable	5	**6,658**	1,976	**335**	-
Derivative financial liabilities	20	**291**	1,012	**-**	-
Total Current Liabilities		**39,008**	32,010	**1,030**	968
NON-CURRENT LIABILITIES					
Provisions	14	**965**	1,140	**-**	-
Interest bearing loans and borrowings	15	**21,752**	36,380	**-**	-
Derivative financial liabilities	20	**129**	359	**-**	-
Deferred tax liabilities	5	**1,752**	1,999	**-**	-
Total Non-Current Liabilities		**24,598**	39,878	**-**	-
Total Liabilities		**63,606**	71,888	**1,030**	968
Net Assets		**110,325**	100,890	**75,201**	76,562
EQUITY					
Equity attributable to equity holders of the parent					
Share capital	16	**69,732**	68,198	**69,732**	68,198
Reserves	17	**(8,984)**	(5,314)	**-**	-
Retained earnings	18	**49,577**	38,006	**5,469**	8,364
Total Equity		**110,325**	100,890	**75,201**	76,562

For and on behalf of the Board which authorised these financial statements on 24 August 2011



Sir Selwyn Cushing
Chairman of the Board of Directors

E.M. Coutts
Director

The above Balance Sheet should be read in conjunction with the accompanying notes

Financial Statements *(continued)*

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
Net profit after tax for the year		**20,200**	11,958	**5,740**	4,468
OTHER COMPREHENSIVE INCOME					
Net gains/(losses) on hedge of net investments	17	**(2,483)**	(2,454)	**-**	-
Foreign exchange movements on translation of foreign operations	17	**(1,162)**	(1,181)	**-**	-
Net gains/(losses) on cash flow hedges	17	**639**	3,461	**-**	175
Tax relating to components of other comprehensive income	5	**(653)**	(734)	**-**	(53)
Effect of movement in foreign currencies		**(11)**	-	**-**	-
Other comprehensive income net of tax		**(3,670)**	(908)	**-**	122
Total comprehensive income for the period		**16,530**	11,050	**5,740**	4,590
Attributable to:					
- Equity holders of parent		**16,530**	11,050	**5,740**	4,590
- Non-controlling interests		**-**	-	**-**	-
		16,530	11,050	**5,740**	4,590

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

GROUP	NOTE	FULLY PAID ORDINARY SHARES $000	CASH FLOW HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	TOTAL $000
Balance 1 July 2009		46,025	(2,740)	(1,666)	29,811	71,430
Net profit after tax for year ending 30 June 2010		-	-	-	11,958	11,958
Other comprehensive income	17	-	2,433	(3,341)	-	(908)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		-	2,433	(3,341)	11,958	11,050
Issue of share capital	16	22,974	-	-	-	22,974
Transaction costs	16	(801)	-	-	-	(801)
Dividends	18	-	-	-	(3,763)	(3,763)
Balance 30 June 2010		68,198	(307)	(5,007)	38,006	100,890
Net profit after tax for year ending 30 June 2011		**-**	**-**	**-**	**20,200**	**20,200**
Other comprehensive income	17	**-**	**432**	**(4,102)**	**-**	**(3,670)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**-**	**432**	**(4,102)**	**20,200**	**16,530**
Issue of share capital	16	**1,534**	**-**	**-**	**-**	**1,534**
Transaction costs	16	**-**	**-**	**-**	**-**	**-**
Dividends	18	**-**	**-**	**-**	**(8,629)**	**(8,629)**
Balance 30 June 2011		**69,732**	**125**	**(9,109)**	**49,577**	**110,325**

PARENT	NOTE	FULLY PAID ORDINARY SHARES $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL $000
Balance 1 July 2009		46,025	(122)	7,665	53,568
Net profit after tax for year ending 30 June 2010		-	-	4,468	4,468
Other comprehensive income	17	-	122	-	122
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		-	122	4,468	4,590
Issue of share capital	16	22,974	-	-	22,974
Transaction costs	16	(801)	-	-	(801)
Dividends	18	-	-	(3,769)	(3,769)
Balance 30 June 2010		68,198	-	8,364	76,562
Net profit after tax for year ending 30 June 2011		**-**	**-**	**5,740**	**5,740**
Other comprehensive income	17	**-**	**-**	**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**-**	**-**	**5,740**	**5,740**
Issue of share capital	16	**1,534**	**-**	**-**	**1,534**
Transaction costs	16	**-**	**-**	**-**	**-**
Dividends	18	**-**	**-**	**(8,635)**	**(8,635)**
Balance 30 June 2011		**69,732**	**-**	**5,469**	**75,201**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

Financial Statements *(continued)*

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of GST/VAT)		**188,529**	169,073	**-**	-
Interest received		**488**	479	**43**	31
Dividends received		**-**	-	**4,780**	4,300
Payments to suppliers and employees (inclusive of GST/VAT)		**(147,426)**	(137,108)	**(1,965)**	(2,819)
Income tax refund/(paid)		**(5,695)**	(3,660)	**(64)**	4
Interest and bank fees paid		**(2,874)**	(4,832)	**(671)**	(1,321)
Management fees received		**-**	-	**3,726**	4,447
Net cash flows from / (used in) operating activities	25	**33,022**	23,952	**5,849**	4,642
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		**49**	1,026	**-**	-
Payments for property, plant and equipment	10	**(7,436)**	(4,961)	**(5)**	-
Payments for intangible assets	11	**(270)**	(163)	**-**	-
Proceeds from/(payments to) related parties	22	**-**	-	**2,206**	(12,994)
Net cash flows from / (used in) investing activities		**(7,657)**	(4,098)	**2,201**	(12,994)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of equity shares	16	**-**	21,536	**-**	21,536
Transaction cost of equity shares	16	**-**	(801)	**-**	(801)
Repayment of borrowings		**(14,649)**	(35,637)	**-**	(12,500)
Dividends paid to equity holders of parent		**(7,095)**	(2,325)	**(7,101)**	(2,331)
Net cash flows from / (used in) financing activities		**(21,744)**	(17,227)	**(7,101)**	5,904
Net increase / (decrease) in cash and cash equivalents		**3,621**	2,627	**949**	(2,448)
Cash and cash equivalents at the beginning of the year		**9,567**	6,853	**630**	3,078
Effect of exchange rate fluctuations		**(422)**	87	**-**	-
Cash and cash equivalents at the end of the year	7	**12,766**	9,567	**1,579**	630

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

1. CORPORATE INFORMATION

The financial statements of Skellerup Holdings Limited for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the directors on 24 August 2011.

Skellerup Holdings Limited is registered under the Companies Act 1993 incorporated in New Zealand and listed on the New Zealand Exchange. Skellerup Holdings Limited is an issuer for the purposes of the Financial Reporting Act 1993.

The nature of the operations and principal activities of the Group are described in the Segment Information under Note 24.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The financial statements have also been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

The consolidated financial statements for the year ended 30 June 2011 have been prepared in accordance with New Zealand Generally Accepted Accounting Practices. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZIFRS) and other applicable Financial Reporting Standards as appropriate for profit oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The Group is a profit oriented entity and the operational results may fluctuate with movements in the international markets.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Skellerup Holdings Limited and its subsidiaries as at 30 June 2011 ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

When subsidiaries are initially consolidated, adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances, income and expense transactions, and profit and losses resulting from intra-group activities, have been eliminated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Skellerup Holdings Limited has control.

(c) New accounting standards and interpretations

NZ IFRS Standards which have been issued but not yet effective and have not been adopted for the Annual Report ending 30 June 2011, are as follows:

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP
Improvements to NZ Equivalents to IFRS (2010)	Amendments to New Zealand Accounting Standards arising from the Annual Improvements Project (2010)	The amendments to NZ IFRS 7 emphasise the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.	1 January 2011	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2011
Improvements to NZ Equivalents to IFRS (2010) (Cont.)	Amendments to New Zealand Accounting Standards arising from the Annual Improvements Project (2010) (Cont.)	The amendments to NZ IAS 34 provides guidance to illustrate how to apply disclosure principles in NZ IAS 34 and add disclosure requirements around: • The circumstances likely to affect fair values of financial instruments and their classification. • Transfers of financial instruments between different levels of the fair value hierarchy. • Changes in classification of financial assets. • Changes in contingent liabilities and assets.	1 January 2011	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2011

Notes to the Financial Statements *(continued)*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP
NZ IAS 24	Related Party Disclosures (Revised 2009)	The revised NZ IAS 24 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.	1 January 2011	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2011
NZ IAS 27	Separate Financial Statements	NZ IAS 27 Separate Financial Statements (as amended in 2011) removes the accounting and disclosure requirements for consolidated financial statements, as a result of the issue of NZ IFRS 10 Consolidated Financial Statements and NZ IFRS 12 Disclosures of Interests in Other Entities, which establish new consolidation and disclosure standards.	1 January 2013	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2013
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures	The amendments to NZ IFRS 7 enhance the transparency of disclosure requirements for the transfer of financial assets.	1 July 2011	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2011
NZ IFRS 9 (2009)	Financial Instruments	NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39 Financial Instruments: Recognition and Measurement. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets.	1 January 2013	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2013
NZ IFRS 9 (2010)	Financial Instruments	NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: • The change attributable to changes in credit risk is presented in other comprehensive income (OCI). • The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2013
NZ IFRS 10	Consolidated Financial Statements	NZ IFRS 10 establishes a new control model. It replaces part of NZ IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.	1 January 2013	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2013
NZ IFRS 11	Joint Arrangements	NZ IFRS 11 replaces NZ IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Ventures. NZ IFRS 11 uses the principle of control in NZ IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition NZ IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement.	1 January 2013	These amendments are not expected to have any impact on the Group's Financial Statements since the Group does not have any joint arrangements.	1 July 2013
NZ IFRS 12	Disclosure of Interests in Other Entities	NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2013
NZ IFRS 13	Fair Value Measurement	NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2013
FRS 44	New Zealand Additional Disclosures	FRS 44 is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board (AASB) and Financial Reporting Standards Board (FRSB). This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in a number of areas.	1 July 2011	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2011
Harmonisation Amendments	Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards. (NZ IAS 1, 7, 8, 12, 16, 20, 28, 31, 34 and 40)	These amendments (a) Remove the disclosures which have been relocated to FRS 44. (b) Harmonise audit fee disclosure requirements in NZ IFRS 1 with AASB 101. (c) Harmonise imputation/franking credits' disclosure requirements in NZ IAS 12 with AASB 101. (d) Introduce the option to use the indirect method of reporting cash flows in NZ IAS 7. (e) Introduce an accounting policy choice to use the cost model for investment property under NZ IAS 40. (f) Remove the requirement to use an independent valuer and the related disclosure requirements currently in NZ IAS 16 and NZ IAS 40. (g) Remove some NZ-specific disclosures.	1 January 2011	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2011

(d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with NZ IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired, liabilities, and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling interests. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Segment reporting

An operating segment is a distinguishable component of the entity which is reported as an organisational unit, engages in business activities, earning revenues and incurs expenses, and whose operating results are regularly reviewed by the chief operating decision maker to allocate resources and assess performance.

Factors which determine a separate operating segment include the nature of the products, services and production processes, together with the type and class of the customer. Such segments will have discreet financial information available so that the chief operating decision maker is able to assess performance and allocate resources. Operating segments that meet the quantitative criteria as prescribed by NZ IFRS 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where this separate disclosure meets the above definition of a separate operating segment and is useful to users of the Financial Statements.

(f) Foreign currency translation

Functional and Presentation Currency

Both the functional and presentation currency of Skellerup Holdings Limited and its New Zealand subsidiaries is New Zealand dollars.

The functional currency of the foreign subsidiaries is the currency relating to the country where the subsidiary is domiciled.

Transactions and Balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All differences in the financial statements are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to statement of comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised directly in the statement of comprehensive income.

Notes to the Financial Statements *(continued)*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Skellerup Holdings Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average month end exchange rates for the year.

The exchange differences arising on translation are taken directly to a separate component of the statement of comprehensive income.

(g) Property, plant and equipment

All classes of property, plant and equipment are initially recorded at cost, including costs directly attributable in bringing the asset to the working condition and ready for its intended use.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	-	40 years
Plant and Equipment	-	2 to 20 years
Furniture, Fittings and Other	-	5 to 10 years

Impairment

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may be less than the recoverable amount.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

Disposals

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

(h) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at the amount recognised at acquisition date less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment determined in accordance with NZ IFRS 8.

Impairment testing is undertaken as at 31 May each year and is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement. Impairment losses recognised are not subsequently reversed.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(i) Intangible assets

Intangible assets acquired separately or in a business combination, are capitalised at cost at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any impairment losses.

The useful lives of these separately acquired intangible assets are assessed to be finite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets with finite lives, excluding development costs, created within the business are not capitalised and expenditure is charged to the income statement in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of intangibles with indefinite lives, annually, either individually or at the cash-generating unit level. Where an intangible asset is impaired, the carrying amount, less any recoverable amount as defined in Note 1(j) is charged to the income statement. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

The Group's intangible assets mainly consist of software costs and land use rights. A 10-year straight line amortisation rate is currently used for software costs. Land use rights are amortised over the period the land is available to be used, being 50 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The amortisation period and amortisation method for development costs is reviewed at each financial year-end. If the useful life or method of consumption is different from the previous assessment, changes are made accordingly. The carrying value of development costs is reviewed for indicators of impairment annually.

(j) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Financial Statements *(continued)*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Investments

All investments in subsidiaries are initially recognised at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. Investments will continue to be measured at cost in the parent's Financial Statements.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis;
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(m) Trade and other receivables

Trade receivables, which generally have 30 - 120 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when there is objective evidence of impairment of the full amount. Bad debts are written off when identified. A debt is considered to be uncollectible when the debtor files for receivership or liquidation.

(n) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(o) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(p) Investments and other financial assets

Financial assets in the scope of NZ IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through the income statement, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through the income statement, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Recognition and derecognition

All regular purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred. Gains and losses on financial assets are exclusive of interest and dividends which are recognised separately.

(i) Financial assets at fair value through the income statement

Financial assets classified as held for trading are included in the category 'financial assets at fair value through the income statement'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in the statement of comprehensive income is recognised in the income statement.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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

(r) Trade and other payables

Trade and other payables are carried at amortised cost, and due to their short term nature, are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid, and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and usually paid within 30 to 60 days of recognition.

(s) Provisions and employee benefits

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the balance date.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Certain businesses within New Zealand qualify to be in the Accident Compensation Commission Partnership Programme, where medical costs relating to work related incidents are the liability of the business under certain conditions. The liability arising from such future work related medical costs are valued by an independent actuary, discounted to a present value and recorded as a current liability on the Balance Sheet.

Employee benefits

(i) Wages, salaries, annual leave and sick leave

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

(ii) Long service leave

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

(iii) Defined contribution scheme

The Group contributes to post employment schemes for its employees. Under these schemes the benefits received by the employee are determined by the amount of the contribution paid by the Group, together with any investment returns and hence the actuarial and investment risk is borne entirely by the employee. Therefore, because the Group's obligations are determined by the amount paid during each period, no actuarial assumptions are required to measure the obligation or the expense.

(t) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Where the leased item is capitalised, the item is depreciated over its economic useful life.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the income statement as finance costs.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

Revenue from rendering services is recognised by reference to the stage of completion.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

Revenue is recognised as the interest accrues (using the effective interest method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental income

Rental income is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

(w) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as a liability initially, and released as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(x) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

> except for a deferred income tax liability arising from the initial recognition of goodwill;

> except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

> when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, or

> when the deductible temporary difference is associated with investment in subsidiaries, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has

Notes to the Financial Statements *(continued)*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current assets against current liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Income tax relating to items recognised directly in the statement of comprehensive income are recognised in the statement of comprehensive income and not in the income statement.

(y) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST/VAT except:

> where the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

> receivables and payables are stated with the amount of GST/VAT included.

The net amount of GST/VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST/VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the taxation authority.

(z) Earnings per share

Earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

(aa) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(ab) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Certain derivative instruments are also held for trading for the purpose of making short term gains. These derivatives do not qualify for hedge accounting and changes in fair value are recognised immediately in profit or loss in other revenue and expenses. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flows hedges, are taken directly to profit or loss for the year. The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swap and commodity contracts are determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

> Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;

> Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or

> Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are recognised in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

(ii) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in the statement of comprehensive income, while the ineffective portion is recognised in the income statement.

Amounts taken to the statement of comprehensive income are transferred out of the statement of comprehensive income and included in the measurement of the hedged transaction (sales or inventory purchases) when the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, amounts previously recognised in the statement of comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in the statement of comprehensive income remain in the statement of comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is recognised in the income statement.

(iii) Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

(ac) Significant accounting judgements and assumptions

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Details of the material accounting judgements and assumptions are as follows:

(i) Impairment of goodwill

The Group determines whether goodwill with indefinite useful lives are impaired at least on an annual basis. This requires certain assumptions being made in determining the recoverable amount of the cash generation units, using a value in use discounted cash flow methodology, to which the goodwill has been allocated. The assumptions used in determining the recoverable amount and the carrying amount of goodwill are disclosed in Note 11.

(ii) Warranty provisions

In determining the level of provision required for warranties, the Group has made judgements in respect of the expected performance of products and the costs of rectifying any products that do not meet the customers' quality standards. Historical experience and trends of past expenditure have been used by management in determining the appropriate provision required. The related carrying amount of provisions is disclosed in Note 14.

Notes to Financial Statements *(continued)*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Inventory obsolescence

The Group applies an inventory valuation policy of valuing at the lower of original cost, or net realisable value. Where inventory is written down below cost, estimates are made of the realisable value less cost to sell to determine the net realisable value. The estimated write down is disclosed in Note 9.

(iv) Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience, manufacturers' warranties, lease terms and management's judgement on the performance of the asset. Adjustments to useful lives are made when considered necessary.

The depreciation changes are disclosed in Note 10.

(v) Recovery of the deferred tax asset

The deferred tax asset represents the temporary differences that arise where expenditure recognised by the Group can be claimed in a future period, when the expenditure is considered to be an allowable deduction for tax purposes. The assumption made is that it is probable that sufficient taxable profits will be available in future periods in each tax jurisdiction that the deferred tax relates, to utilise the tax benefit represented by the deferred tax asset.

The deferred tax asset is disclosed in Note 5.

(vi) Impairment of non financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date, by evaluating conditions specific to the group and to the particular assets held. The assessment made includes product and manufacturing performances, technology, economic and political environments and future product expectations. If an impairment exists the recoverable amount is determined and the asset written down to the recoverable amount. Management have determined there are no material impairments of non financial assets.

(vii) Management's expectation of future payments

Management closely monitor the cash needs of the Group so that adequate financial resources are available to meet the immediate cash commitments.

A balanced view of cash inflows and outflows are considered when determining the cash resources available, in addition to ensuring appropriate credit lines are available from the Group's bankers to cover short and long term cash demands. Under Note 20, management has disclosed their estimates of the timing of future cash commitments from the realisation of financial assets and financial liabilities.

(viii) Assumptions relating to the Canterbury earthquake insurance recovery

As a result of the damage to buildings and business interruptions caused by the Canterbury earthquakes, management have made certain assumptions regarding the estimated recovery which will result from claims made on insurance policies.

For expenses relating to increased costs of operating, temporary repairs and certain business interruption costs which can be quantified, the expenses and sundry income expected to be recovered under insurance policies have been recorded in the financial statements. The expenses are recorded in note 6 and the sundry income in note 3. A summary of the impact on the Group's result is reported in note 27.

For buildings which are subject to significant structural engineering evaluation to determine whether the structures can be repaired or replaced, the insurance claim values cannot be reliably measured with virtual certainty, because of the range of options available to reinstate, and negotiations with underwriters have not commenced.

Because the values cannot be determined with virtual certainty, the possible insurance proceeds have not been quantified in the financial statements.

(ad) Changes to accounting policies

There have been no changes to accounting policies during the reported period other than the application of the following new standards and interpretations which has impacted presentation, and has no material impact on the measurement and recognition of amounts in the Financial Statements:

- NZ IAS 1 - Presentation of Financial Statements
- NZ IAS 7 - Statement of Cash Flows
- NZ IAS 36 - Impairment of Assets
- NZ IAS 39 - Financial Instruments: Recognition and measurement

2. OPERATING REVENUE

An analysis of the revenue for the year is as follows:

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
Sale of goods		**193,443**	180,470	**-**	-
Management fees from subsidiaries	22	**-**	-	**3,726**	4,447
Rental revenue	23	**150**	249	**-**	-
Dividends from subsidiaries	22	**-**	-	**4,780**	4,300
Total operating revenue		**193,593**	180,719	**8,506**	8,747

3. OTHER INCOME

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
Interest income		**488**	479	**43**	31
Government grants received		**68**	358	**-**	-
Gain on disposal of property, plant and equipment		**-**	-	**-**	-
Foreign currency gains		**265**	-	**-**	-
Canterbury earthquakes insurance claims	6	**4,132**	-	**-**	-
Other sundry income		**960**	250	**-**	-
Total other income		**5,913**	1,087	**43**	31

As a result of the Canterbury earthquakes in September 2010 and February 2011, certain costs have been incurred (refer note 6). These costs are subject to an insurance claim with the company's underwriters, and therefore these costs have been recognised as income, and a receivable, in the 2011 year.

4. FINANCE COSTS

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Interest on bank overdrafts and borrowings	**1,967**	3,721	**10**	401
Bank facility fees	**693**	1,047	**680**	875
Interest on finance leases	**7**	17	**-**	-
Total finance costs	**2,667**	4,785	**690**	1,276

Notes to Financial Statements *(continued)*

5. TAXATION

(a) Income Statement

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
CURRENT INCOME TAX					
Current income tax charge/(credit)		**9,555**	4,567	**375**	7
Prior year adjustments		**59**	(261)	**61**	-
DEFERRED INCOME TAX					
Relating to origination and reversal of temporary differences		**(253)**	7	**47**	66
Due to change in tax legislation		**-**	80	**-**	-
Due to change in tax rates		**28**	139	**(3)**	-
Prior year adjustments		**(153)**	18	**(55)**	2
Effect of movements in foreign currencies		**124**	397	**-**	-
Income tax expense as per income statement		**9,360**	4,947	**425**	75

(b) Amounts charged to other comprehensive income

		GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
RESERVES					
Deferred tax on forward exchange and interest rate swap derivatives taken to the hedge reserve	17	**186**	1,028	**-**	53
Tax on unrealised foreign exchange gains/(losses) in year taken to foreign currency revaluation reserve	17	**(346)**	(294)	**-**	-
Prior year adjustments	17	**813**	-	**-**	-
Total income tax expense relating to other comprehensive income		**653**	734	**-**	53

5. TAXATION (continued)

(c) Reconciliation

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Total profit as reported	**29,560**	16,905	**6,165**	4,543
Less tax charge	**9,360**	4,947	**425**	75
Tax percentage	**31.7%**	29.3%	**6.9%**	1.7%
Net profit after tax	**20,200**	11,958	**5,740**	4,468
Tax % at parent company rate	**30%**	30%	**30%**	30%
Tax at parent company rate	**8,868**	5,071	**1,850**	1,363
Due to change in tax legislation	**-**	80	**-**	-
Due to change in tax rates	**28**	139	**(3)**	-
Adjustments for prior years	**(94)**	(243)	**5**	2
Non deductibles/(non taxables)	**28**	(137)	**(1,427)**	(1,290)
Effect of different foreign tax rates	**185**	24	**-**	-
Controlled foreign company tax charge	**221**	-	**-**	-
Effect of movements in foreign currencies	**124**	13	**-**	-
Income tax as per income statement	**9,360**	4,947	**425**	75

Tax Legislation Amendment

The tax legislation changes announcement made by the New Zealand Government in May 2010 has impacted the deferred tax charge for the prior period for the New Zealand based entities.

The impact of these changes is as follows:

(1) The Company income tax rate is to reduce to 28% (currently 30%) for periods from and including the 2012 year.

The impact on temporary differences reversing in the 2012 year or subsequent periods resulted in an additional deferred tax charge of $28,000 for the period (2010, $139,000).

(2) The tax rate for depreciation on buildings, which have a life of 50 years or greater, was reduced to zero for periods from and including 2012. There was no impact in the current year.

The impact resulted in an additional deferred tax charge for the previous period of $80,000 as a result of the tax depreciation base for buildings being reduced to zero for future periods.

Notes to Financial Statements *(continued)*

5. TAXATION (continued)

(d) Recognised current and deferred tax assets and liabilities

	NOTE	GROUP			
		2011 CURRENT INCOME TAX $000	2011 DEFERRED INCOME TAX $000	2010 CURRENT INCOME TAX $000	2010 DEFERRED INCOME TAX $000
Opening balance		**(1,647)**	**537**	(868)	1,647
CHARGED TO INCOME					
Current year charge		**(9,555)**	**253**	(4,567)	(87)
Prior year adjustments		**(136)**	**230**	261	(18)
Payments/(refunds)		**5,695**	**-**	3,660	-
Effect of change in future tax rates		**-**	**(28)**	-	(139)
CHARGED TO OTHER COMPREHENSIVE INCOME					
Deferred tax on forward exchange and interest rate swap derivatives taken to the hedge reserve	17	**-**	**(186)**	-	(1,028)
Deferred tax on unrealised foreign exchange gains in year taken to foreign currency revaluation reserve	17	**346**	**-**	-	294
Prior year adjustments	17	**(803)**	**(10)**	-	-
Effect of movements in foreign currencies		**(211)**	**98**	(133)	(132)
Closing balance		**(6,311)**	**894**	(1,647)	537
Amounts recognised in the balance sheet:					
- Tax asset		**347**	**2,646**	329	2,536
- Tax liability		**(6,658)**	**(1,752)**	(1,976)	(1,999)
Net tax asset/(liability)		**(6,311)**	**894**	(1,647)	537

	GROUP	
	2011 DEFERRED INCOME TAX $000	2010 DEFERRED INCOME TAX $000
(i) DEFERRED TAX LIABILITIES		
Accelerated depreciation	**(3,130)**	(4,044)
Gross deferred tax liabilities	**(3,130)**	(4,044)
(ii) DEFERRED TAX ASSETS		
Inventory	**468**	592
Restructuring	**-**	-
Annual leave, long service leave (incl. sick leave)	**1,505**	1,457
Doubtful debts	**158**	211
Warranty	**679**	489
General	**941**	997
Derivatives	**(50)**	149
Loss available for future offset	**323**	686
Gross deferred tax assets	**4,024**	4,581
Set-off deferred tax liabilities	**(3,130)**	(4,044)
Net deferred tax assets	**894**	537

The deferred tax asset and liabilities can only be offset if in the same tax jurisdiction.

5. TAXATION (continued)

(d) Recognised current and deferred tax assets and liabilities (continued)

	NOTE	PARENT			
		2011 CURRENT INCOME TAX	2011 DEFERRED INCOME TAX	2010 CURRENT INCOME TAX	2010 DEFERRED INCOME TAX
		$000	$000	$000	$000
Opening balance		**37**	**3**	48	124
Charged to income		**(375)**	**(47)**	(7)	(66)
Charged to income – previous year		**(61)**	**56**	-	(2)
Payments		**64**	**-**	(4)	-
Effect of change in future tax rates		**-**	**3**	-	-
CHARGED TO OTHER COMPREHENSIVE INCOME					
Deferred tax on interest rate swap derivatives taken to the hedge reserve	17	**-**	**-**	-	(53)
Closing balance		**(335)**	**15**	37	3
Amounts recognised in the balance sheet:					
- Tax asset		**-**	**15**	37	3
- Tax liability		**(335)**	**-**	-	-
Net tax asset		**(335)**	**15**	37	3

	PARENT	
	2011 DEFERRED INCOME TAX	2010 DEFERRED INCOME TAX
	$000	$000
(i) DEFERRED TAX LIABILITIES		
Derivatives	**-**	-
Gross deferred tax liabilities	**-**	-
(ii) DEFERRED TAX ASSETS		
Annual leave, long service leave (incl. sick leave)	**7**	3
Other	**8**	-
Gross deferred tax assets	**15**	3

IMPUTATION CREDIT ACCOUNT

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Balance at beginning of year	**5,185**	5,321	**4,604**	4,531
Attached to dividends received	**-**	-	**2,048**	1,843
Attached to dividends paid	**(3,680)**	(1,847)	**(3,680)**	(1,847)
Income tax paid/(refunds) in New Zealand	**1,450**	1,711	**44**	77
Total imputation credits	**2,955**	5,185	**3,016**	4,604

Notes to Financial Statements *(continued)*

6. EXPENDITURE INCLUDED IN NET PROFIT FOR THE YEAR

Net Profit for the year has been arrived at after charging / (crediting):

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
REMUNERATION OF AUDITORS:					
Audit of the financial statements by parent company auditor					
- New Zealand companies		**175**	162	**59**	67
- Overseas companies		**174**	102	**-**	-
Other services provided by parent company auditor – assurance services related to the earthquakes insurance claims		**50**	-	**-**	-
NZ IFRS, IT and internal assurance services and statutory audits performed for foreign subsidiaries		**-**	103	**-**	-
Other auditors fees for the audit of the financial statements in foreign jurisdictions		**76**	97	**-**	-
Total remuneration of auditors		**475**	464	**59**	67
EMPLOYEE BENEFITS EXPENSE:					
Wages and salaries (including annual leave, long service and sick leave)		**41,298**	39,024	**727**	643
Termination benefits		**28**	1,298	**-**	1,100
Defined contribution expense		**1,015**	712	**-**	-
Total employee benefits expense		**42,341**	41,034	**727**	1,743
DEPRECIATION AND AMORTISATION EXPENSES:					
Depreciation of property, plant and equipment	10	**6,411**	6,054	**1**	1
Amortisation of intangible assets	11	**880**	852	**-**	-
Total depreciation and amortisation expense		**7,291**	6,906	**1**	1
LOSS OF DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		**80**	220	**-**	1
RESTRUCTURING EXPENSES					
Restructuring expenses are reported as distribution expenses		**-**	37	**-**	-
PRODUCT DEVELOPMENT COSTS		**676**	834	**-**	-
RENTALS AND OPERATING LEASE COSTS					
- Property, vehicles and plant & equipment		**5,646**	4,719	**35**	38
FOREIGN CURRENCY LOSSES		**-**	2,521	**-**	4
INEFFECTIVE PORTION OF CASHFLOW HEDGES:					
- Interest rate swaps		**9**	718	**-**	-
- Foreign currency contracts		**-**	105	**-**	-
Total ineffective portion of cash flow hedges		**9**	823	**-**	-

CANTERBURY EARTHQUAKES IMPACT

Included in the net profit for the year were expenses related to increased operating costs and repair expenses resulting from the Canterbury earthquakes during the year. The expenses recognised are as follows:

		GROUP 2011	GROUP 2010	PARENT 2011	PARENT 2010
- Impairment of buildings – accelerated depreciation		**1,420**	-	-	-
- Increased expenses associated with maintaining distribution and manufacturing operations		**2,712**	-	-	-
Total Canterbury earthquake expenses		**4,132**	-	-	-

These expenses are subject to insurance claims with our underwriters and are expected to be recovered under our insurance policies. Therefore the expenses have also been recorded as sundry income (refer note 3), and a receivable, in the 2011 year.
A summary of the impact from the Canterbury earthquakes on the group's results as at 30 June 2011 is reported at note 27.

7. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

In New Zealand, some companies operate bank accounts in overdraft. Under the Group bank facility overdrafts have a legal right of set off against bank accounts in funds. Therefore, only the net in funds position has been disclosed. Cash and cash equivalents at the end of the year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows.

All cash is available and under control of the Group, and there are no restrictions relating to the use of the cash balances disclosed.

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Cash and bank balances	**12,766**	9,567	**1,579**	630
Total cash and bank balances	**12,766**	9,567	**1,579**	630

8. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Trade receivables	**34,799**	36,941	**-**	-
Less allowance for doubtful debts	**624**	816	**-**	-
	34,175	36,125	**-**	-
GST/VAT receivable	**427**	479	**-**	-
Other	**6,056**	2,708	**110**	131
Total trade and other receivables	**40,658**	39,312	**110**	131

The average credit period for sales of goods is 61 days (2010: 62 days). No interest is charged on the trade receivables.

An allowance for doubtful debts has been determined for specific balances based on management's assessment of the recoverability of trade and other receivables.

Before accepting a new customer, the Group verifies the potential customer's credit quality and defines credit limits by customer. Limits and the credit performance of the customers are reviewed monthly. Of the trade receivables balance at the end of the year, $3.81 million (2010:$3.4 million) representing 10.9 % (2010: 9.2 %) of the trade receivables are due from the Group's three largest customers. The balances due from these customers are current and are considered to be a low credit risk to the Group.

Included in the Group's trade receivable balance are debtors with a carrying amount of $7.4 million (2010:$7.9 million) which are past due but not impaired at the reporting date for which the Group has not provided since there has not been a significant change in credit quality and the amounts are still considered recoverable. Apart from retention of title, and in some cases, registration of NZ overdue debts on the Personal Property Securities Register, the Group does not hold any other collateral over these balances.

Ageing of past due but not impaired trade receivables:

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
01-30 days	**5,398**	5,566	**-**	-
31-60 days	**1,252**	1,666	**-**	-
61 days plus	**767**	723	**-**	-
Total past due trade receivables	**7,417**	7,955	**-**	**-**
Movement in the allowance for doubtful debts:				
Balance at the beginning of year	**816**	769	**-**	-
Impaired losses recognised	**221**	218	**-**	-
Amounts written off as uncollectable	**-**	(76)	**-**	-
Impairment losses reversed	**(399)**	(59)	**-**	-
Net foreign currency exchange differences	**(14)**	(36)	**-**	-
Balance at the end of year	**624**	816	**-**	**-**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Notes to Financial Statements *(continued)*

8. TRADE AND OTHER RECEIVABLES (continued)

The impairment recognized represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances. The net carrying amount is considered to approximate their fair value.

9. INVENTORIES

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Raw materials at cost	**6,706**	6,354	**-**	-
Work in progress at cost	**3,413**	3,066	**-**	-
Finished goods at cost	**18,318**	18,739	**-**	-
Total inventories	**28,437**	28,159	**-**	-

The cost of inventories is net of $1.9 million (2010: $2.4 million) in respect of write downs across all categories of inventory to net realisable value. All inventory write down movements are included in the cost of sales.

Certain inventories are subject to retention of title clauses where the inventory has not been paid for.

10. PROPERTY, PLANT AND EQUIPMENT

	FREEHOLD LAND (AT COST)	FREEHOLD BUILDINGS (AT COST)	PLANT AND EQUIPMENT (AT COST)	FURNITURE, FITTINGS AND OTHER (AT COST)	TOTAL
	$000	$000	$000	$000	$000
GROUP					
Cost					
Balance 1 July 2009	183	1,732	54,313	3,884	60,112
Additions	-	-	4,374	587	4,961
Disposals	(7)	(48)	(3,273)	(854)	(4,182)
Net foreign currency exchange differences	(1)	(2)	(2,980)	(264)	(3,247)
Balance 30 June 2010	**175**	**1,682**	**52,434**	**3,353**	**57,644**
Additions	**-**	**-**	**6,881**	**555**	**7,436**
Disposals	**-**	**-**	**(574)**	**(196)**	**(770)**
Net foreign currency exchange differences	**-**	**-**	**(629)**	**(27)**	**(656)**
Balance 30 June 2011	**175**	**1,682**	**58,112**	**3,685**	**63,654**

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	NOTE	FREEHOLD LAND	FREEHOLD BUILDINGS	PLANT AND EQUIPMENT	FURNITURE, FITTINGS AND OTHER	TOTAL
		$000	$000	$000	$000	$000
GROUP						
Accumulated depreciation and impairment						
Balance 1 July 2009		-	254	14,267	2,472	16,993
Depreciation expense	6	-	45	5,536	473	6,054
Impairment expense		-	-	-	-	-
Disposals		-	(58)	(2,477)	(366)	(2,901)
Net foreign currency exchange differences		-	(2)	(940)	(212)	(1,154)
Balance 30 June 2010		**-**	**239**	**16,386**	**2,367**	**18,992**
Depreciation expense	6	-	**23**	**5,980**	**408**	**6,411**
Impairment expense	6	-	**1,420**	**-**	**-**	**1,420**
Disposals		-	**-**	**(467)**	**(137)**	**(604)**
Net foreign currency exchange differences		-	**-**	**(382)**	**66**	**(316)**
Balance 30 June 2011		**-**	**1,682**	**21,517**	**2,704**	**25,903**
Carrying value						
As at 30 June 2010		175	1,443	36,048	986	38,652
As at 30 June 2011		**175**	**-**	**36,595**	**981**	**37,751**

Capital expenditure commitments are $4,201,000 (2010: $313,000). The increased capital expenditure commitment relates mainly to the additional agricultural plant and machinery being installed and commissioned at the Woolston, Christchurch factory, as well as other plant and equipment at other subsidiaries.

As a result of the Canterbury earthquakes in September 2010 and February 2011, some freehold buildings at the Woolston, Christchurch, site have been damaged.

An impairment of $1,420,000 has been recognised in the June 2011 result to account for the damage to freehold buildings. The impairment has been recorded through the corporate segment.

	NOTE	FURNITURE, FITTINGS AND OTHER
		$000
PARENT		
Cost		
Balance 1 July 2009		18
Additions		-
Disposals		(11)
Balance 30 June 2010		7
Additions		5
Disposals		-
Balance 30 June 2011		12
Accumulated depreciation and impairment		
Balance 1 July 2009		17
Depreciation expense	6	1
Disposals		(11)
Balance 30 June 2010		7
Depreciation expense	6	1
Disposals		-
Balance 30 June 2011		8
Carrying value		
As at 30 June 2010		-
As at 30 June 2011		4

Notes to Financial Statements *(continued)*

11. GOODWILL AND INTANGIBLE ASSETS

	NOTE	GROUP				PARENT
		GOODWILL	SOFTWARE	OTHER INTANGIBLE ASSETS	TOTAL	
		$000	$000	$000	$000	$000
GROUP						
Cost						
Balance 1 July 2009		49,336	7,408	-	56,744	-
Acquired		-	163	-	163	-
Net foreign currency exchange differences		(3,305)	(44)	-	(3,349)	-
Balance 30 June 2010		**46,031**	**7,527**	**-**	**53,558**	**-**
Additions		**-**	**150**	**120**	**270**	-
Disposals		**-**	**(94)**	**-**	**(94)**	-
Net foreign currency exchange differences		**(488)**	**(9)**	**-**	**(497)**	-
Balance 30 June 2011		**45,543**	**7,574**	**120**	**53,237**	**-**
GROUP						
Accumulated amortisation						
Balance 1 July 2009		-	1,798	-	1,798	-
Amortisation expense	6	-	852	-	852	-
Balance 30 June 2010		**-**	**2,650**	**-**	**2,650**	**-**
Disposals		**-**	**(94)**	**-**	**(94)**	**-**
Amortisation expense	6	**-**	**880**	**-**	**880**	**-**
Balance 30 June 2011		**-**	**3,436**	**-**	**3,436**	**-**
Carrying value		-				
As at 30 June 2010		46,031	4,877	-	50,908	-
As at 30 June 2011		**45,543**	**4,138**	**120**	**49,801**	**-**

Impairment tests for goodwill

(i) Description of cash generating units

Goodwill acquired through business combinations has been allocated to the business units acquired. Subsequent business reorganisations within the Group have resulted in the original cash generating unit being combined with other Group businesses.

In such circumstances the original goodwill has been allocated across the combined cash generating unit to fairly determine the recoverable amount against the value in use.

The goodwill allocated to each cash generating unit is as follows:

	2011	2010
	$000	$000
CASH GENERATING UNIT		
- Gulf Rubber / Tumedei / Skellerup Rubber Services	**32,047**	31,991
- Ambic Equipment	**6,747**	7,515
- Deks Industries	**4,568**	4,344
- Thorndon Rubber	**1,750**	1,750
- Stevens Filterite	**431**	431
Total goodwill	**45,543**	46,031

The net present value of future estimated cashflows exceed the recoverable amount of goodwill allocated to each cash generating unit based on a value in use calculation. A discount rate of 12.15 % (2010, 13.0 %) has been applied to discount future cashflows to their present value.

11. GOODWILL AND INTANGIBLE ASSETS (continued)

The Gulf Rubber/Tumedei/Skellerup Rubber Services Goodwill makes up 70.4 % (2010: 69.5 %) of the total Group Goodwill. Although this cash generating unit carries a significant portion of the total Group Goodwill, it does reflect the value attached to these operations and the opportunities available for this cash generating unit to produce consistent growth in operating cash flows. Currently, the Net Present Value of future cash flows being the value in use, exceeds the carrying value by 62.9 % (2010: 73.7 %) for this cash generating unit.

The remaining cash generating units which hold 29.6 % (2010: 30.5 %) of the Goodwill, collectively report their net present value of future cash flows above their carrying value by 88.6 % (2010: 92.6 %).

(ii) Assumptions used to determine the recoverable amount

The future cashflows generated have been determined from the strategic quantifications and detailed budgets undertaken by management as part of the annual business planning that is reviewed and accepted by the Board of Directors. Such forecasts analyse and quantify a range of growth objectives which form the basis for determining the business growth and direction over the next five years.

For periods from 2012 onwards we have anticipated that normal trading conditions will prevail, given that all businesses have traded strongly through 2011 as markets recover from the global recession.

The cash flow in perpetuity is represented by the realisation value of the net assets at book value in the fifth year. A check for reasonableness has been made by determining the price earnings ratio on EBITDA to ensure this is within an acceptable range.

A number of attributes contribute to the overall growth of these businesses over the future five year period under review. The revenue growth percentages range from approximately -2.7 % to +12.8 % per annum over the five years across the various business units.

Key assumptions used in the value in use calculations are as follows:

Revenue assumptions

Revenues have been forecasted to show moderate increases over the following five-year period in line with our strategic business plans to develop and introduce new products, in addition to continuing to support and grow our existing global customer relationships.

Discount rate assumptions

The discount rate is intended to reflect the time value of money and the risks specific to each cash generating unit achieving their forecasted cash flows. In determining the appropriate discount rate regard has been given to the weighted average cost of capital of the Group, which has been updated as at 30 June 2011, to reflect the current market interest rates and the additional cost of capital applicable in the current risk adverse environment.

Commodity cost pricing assumptions

With the base raw material component being synthetic and natural rubbers sourced from Asia, the pricing of these raw materials can fluctuate with many of the synthetics being a by-product of the petrochemical industry, and natural rubbers being influenced by global supply and demand influences. Pricing assumptions have been made in our forecasts that any cost increases driven by commodity price changes will be passed through to the market.

Market share assumptions

In preparing our forecasts, our business plans show no loss of market share. Our strategy is to expand into global markets particularly in Europe and United States of America. Through the Gulf Rubber/Tumedei/Skellerup Rubber Services cash generating unit, we have in our business plans opportunities to expand into these new markets and increase our market share.

Growth rate assumptions

The growth rates have been based on business plan assumptions applied in preparation of the annual budgets for the new financial year and the following four years. This is based on key strategies that have been quantified at a product and customer level, reviewed by senior management, and signed off by the Board of Directors.

(iii) Sensitivity to assumption changes

Estimates made of future cash flows are based on current market conditions. With trading across a number of different products covering a wide industry base, and through a number of international markets, the risk of significant change to cash flow projections is mitigated. Any change in future cash flow projections, which is influenced by price changes, foreign currency movements and competitor activities, will only have minimal impact, and is unlikely to cause an impairment risk of the Goodwill allocated to the various cash generating units, particularly with the net present value of each cash generating unit reported being significantly above the carrying value of the net assets.

Notes to Financial Statements *(continued)*

12. INVESTMENTS AND ADVANCES

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
Debenture note (secured)		1,000	3,000	-	-
Investment in subsidiaries	22	-	-	46,633	46,633
Advance to subsidiaries	22	-	-	27,890	30,096
Total investments and advances		**1,000**	3,000	**74,523**	76,729

The debenture note relates to vendor finance provided to Tiri Group Limited on divestment of the non core business in April 2008. The note is interest bearing with a fixed rate and a remaining term of one year. The debenture is due to mature on 29 June 2012. The interest rate applicable at balance date was 12.3 % (2010: 12.3 %) per annum.

13. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Trade payables	**12,087**	11,098	**-**	-
Employee entitlements	**2,582**	2,617	**-**	-
Accident Compensation Corporation partnership accrual	**261**	269	**-**	-
Sundry payables & accruals	**8,271**	7,863	**137**	427
Goods and services tax	**717**	787	**530**	531
Total trade and other payables	**23,918**	22,634	**667**	958

The average credit period on purchases of all goods and services represents an average of 41 days' credit (2010: 40 days' credit). The Group has financial risk management policies in place to ensure that all payables are met within acceptable terms and conditions of purchase.

Accident Compensation Corporation Partnership Programme:

The liability for the Accident Compensation Corporation Partnership Programme is measured at the present value of anticipated future payments to be made in respect of the employee injuries and claims in New Zealand up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels, and experience of employee claims and injuries.

Expected future payments are discounted using year end market yields on government bonds with terms to maturity that match, as closely to possible, the estimated future cash outflows.

The Group manages its exposure arising from the programme by promoting a safe and healthy working environment by:

> implementing and monitoring health and safety policies;

> induction training on health and safety;

> actively managing work place injuries to ensure employees return to work as soon as practical;

> recording and monitoring work place injuries and near misses to identify risk areas and implementing mitigating actions; and

> identification of work place hazards and implementation of appropriate safety procedures.

A stop loss limit of 250 % of the industry standard levy premium has been agreed with the Accident Compensation Corporation to limit the annual exposure of all claims in New Zealand. In addition, a high claim cost cover has been introduced to limit any single claim, in any year, to $250,000 in New Zealand.

The Group is not exposed to any significant concentrations of insurance risk as work related injuries are generally the result of an isolated event to an individual employee.

An external independent actuarial valuer, Mark Weaver [B.A. (Econometrics) FIAA, FINZA)] of Melville, Jessup and Weaver, has calculated the Group's liability, and this valuation is effective 30 June 2011. There are no qualifications contained in the actuarial valuer's report. The value of the liability at 30 June 2011, which has been recognised on the Balance Sheet, is $124,000 (2010: $131,000).

There have been no changes to the assumptions applied, from the 2010 year, for determining this valuation.

The value of this liability has been classified as a current liability on the Balance Sheet.

14. PROVISIONS

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Provisions				
Employee entitlements	**6,596**	5,791	**28**	10
Warranties	**2,416**	1,622	**-**	-
Total provisions	**9,012**	7,413	**28**	10
Current	**8,047**	6,273	**28**	10
Non-current	**965**	1,140	**-**	-
Total provisions	**9,012**	7,413	**28**	10

	WARRANTIES	RESTRUCTURING COSTS
	$000	$000
GROUP		
Balance 1 July 2009	1,643	477
Additional provisions recognised	407	37
Reductions arising from payments / sacrifices of economic benefits	(429)	(511)
Reductions arising from remeasurement or settlement without cost	6	-
Net foreign currency exchange differences	(5)	(3)
Balance 30 June 2010	**1,622**	**-**
Additional provisions recognised	**1,089**	**-**
Reductions arising from payments / sacrifices of economic benefits	**(299)**	**-**
Reductions arising from remeasurement or settlement without cost	**(1)**	**-**
Net foreign currency exchange differences	**5**	**-**
Balance 30 June 2011	**2,416**	**-**

(i) The provision for employee benefits represents annual leave, sick leave and long service leave entitlements accrued and compensation claims made by employees. Long service leave is based on the various subsidiaries' company policies.

(ii) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the Group's various product warranty programmes. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

(iii) The provision for restructuring costs represents the present value of the directors' best estimate of the direct costs of the restructuring the business which are not associated with the ongoing activities of the Group. The restructuring relates mainly to employment benefits and plant impairment.

15. INTEREST BEARING LOANS AND BORROWINGS

	NOTE	GROUP		PARENT
		EFFECTIVE INTEREST RATE	CARRYING AMOUNT	CARRYING AMOUNT
BALANCE 30 JUNE 2011				
CURRENT LIABILITIES				
SECURED				
Obligations under finance leases and hire purchase contracts	23	**8.22%**	**94**	-
Total current liabilities			**94**	**-**
NON-CURRENT LIABILITIES				
SECURED				
- at amortised cost				
BANK LOANS				
AUD Term Loans AUD 15,520		**6.86%**	**20,101**	-
EUR Term Loan EUR 800		**2.88%**	**1,402**	-
			21,503	-
Obligations under finance leases and hire purchase contracts	23	**8.22%**	**249**	-
Total non-current liabilities			**21,752**	**-**
BALANCE 30 JUNE 2010				
CURRENT LIABILITIES				
SECURED				
Obligations under finance leases	23	5.16 %	115	-
Total current liabilities			115	**-**
NON-CURRENT LIABILITIES				
SECURED				
- at amortised cost				
BANK LOANS				
AUD Term Loans AUD 17,220		5.90 %	21,144	-
EUR Term Loan EUR 8,400		1.70 %	14,973	-
			36,117	
Obligations under finance leases	23	5.16 %	263	-
Total non-current liabilities			36,380	**-**

The carrying amounts disclosed above approximate fair value.

The bank loans are under a multi-currency facility agreement with ANZ National Bank Limited which has a review date maturing in September 2012.

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates. Details of these derivatives are included in Note 20.

Apart from the assets held by Skellerup Rubber Products Jiangsu Limited and some of the assets held by Tumedei SpA, the carrying amount of all tangible assets totaling $121.0m are pledged as security to the bank to secure the above term loans.

16. CONTRIBUTED EQUITY

	GROUP AND PARENT	
	NUMBER OF SHARES	VALUE $000
Balance 1 July 2009	134,597,224	46,025
Ordinary shares issued from the renounceable rights issue on 8 October 2009	53,838,890	21,536
Ordinary shares issued under the dividend reinvestment plan relating to dividends paid on 31 March 2010	2,711,814	1,438
Transaction costs	-	(801)
Balance 30 June 2010	**191,147,928**	**68,198**
Ordinary shares issued in lieu of dividends under the dividend reinvestment scheme on 21 October 2010	**1,657,879**	**1,534**
Balance at 30 June 2011	**192,805,807**	**69,732**

All shares are fully paid, carry one vote per share, carry equal rights to dividends and have no par value. Further details relating to the dividend paid and the dividend reinvestment plan, which resulted in additional ordinary shares being issued, is disclosed under Retained Earnings in Note 18.

Capital Management

When managing capital, the directors' objective is to ensure the entity continues as a going concern, as well as maintaining optimal returns to shareholders and benefits for other stakeholders.

The directors aim to provide a capital structure which:

> Provides an efficient and cost effective source of funds;

> Is balanced with external debt to provide a secure structure to support the short and long term funding of the group;

> The ratio of funds sourced from shareholders and external debt is maintained proportionately at a level which does not create a credit and liquidity risk to the Group.

With the parent being listed on the NZ Exchange, there are continuous disclosure obligations to inform shareholders and the market of any matters which affect the capital of the parent company. This includes changes to the capital structure, new share issues, dividend payments, and any other significant matter which affects the credit worthiness or liquidity of the Group.

The Group is not subject to any externally imposed capital requirements.

Notes to Financial Statements *(continued)*

17. RESERVES

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
Reserve balances					
Cash flow hedge reserve		**125**	(307)	**-**	-
Foreign currency translation reserve		**(9,109)**	(5,007)	**-**	-
Total reserves		**(8,984)**	(5,314)	**-**	**-**

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
CASH FLOW HEDGE RESERVE					
Balance at beginning of year		**(307)**	(2,740)	**-**	(122)
Gain/(loss) recognised on cash flow hedges:					
- Forward foreign exchange contracts		**215**	1,288	**-**	-
- Interest rate swaps		**424**	2,173	**-**	175
- Income tax related to gains /(losses) recognised in other comprehensive income	5	**(186)**	(1,028)	**-**	(53)
Prior year adjustment for tax	5	**(10)**	-	**-**	-
Effect of movement in foreign currencies		**(11)**	-	**-**	-
Movement for the year		**432**	2,433	**-**	122
Balance at end of year		**125**	(307)	**-**	**-**
FOREIGN CURRENCY TRANSLATION RESERVE					
Balance at beginning of year		**(5,007)**	(1,666)	**-**	-
Gain/(loss) recognition:					
- translation of net investments		**(2,483)**	(2,454)	**-**	-
- translation of foreign operations		**(1,162)**	(1,181)	**-**	-
- Income tax related to gains/(losses) recognised in other comprehensive income	5	**346**	294	**-**	-
Prior year adjustment for tax	5	**(803)**	-	**-**	-
Movement for the year		**(4,102)**	(3,341)	**-**	-
Balance at end of year		**(9,109)**	(5,007)	**-**	**-**

The cash flow hedge reserve is intended to recognise the fair value movements of the effective derivatives held to hedge interest rate and foreign currency risk.

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into New Zealand dollars are brought to account by entries made directly to the foreign currency translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations, are also included in the foreign currency translation reserve.

18. RETAINED EARNINGS

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Balance at beginning of year	**38,006**	29,811	**8,364**	7,665
Net profit for the year	**20,200**	11,958	**5,740**	4,468
Payment of dividends	**(8,629)**	(3,763)	**(8,635)**	(3,769)
Balance at end of year	**49,577**	38,006	**5,469**	8,364

During the reported period a dividend of 2.5 cents per share was paid on 21 October 2010 and 2.0 cents per share on 31 March 2011. All dividends paid were fully imputed with imputation tax credits totaling $3,680,296.

The Group dividend for 2011 is less than the Parent due to dividends retained by the Group on shares held by the Employee Share Trustee Company.

The Group provided a dividend reinvestment plan for the dividend paid on 21 October 2010 current reporting period. The value of the shares issued are noted in the table below.

	2011						2010	
	CENTS PER SHARE	TOTAL DIVIDEND $000	IMPUTATION CREDITS $000	SHARES ISSUED DIVIDEND REINVESTMENT PLAN	% OF TOTAL SHARES	DIVIDENDS REINVESTED $000	CENTS PER SHARE	TOTAL DIVIDEND $000
DIVIDENDS								
Fully paid ordinary shares								
- Final – prior year	**2.5**	**4,779**	**2,036**	**1,657,879**	**0.9%**	**1,534**	-	-
- Interim – current year	**2.0**	**3,856**	**1,644**	**-**	**-**	**-**	2.00	3,769
	4.5	**8,635**	**3,680**	**1,657,879**		**1,534**	2.00	3,769

19. EARNINGS PER SHARE

	GROUP	
	2011 CENTS PER SHARE	2010 CENTS PER SHARE
BASIC AND DILUTED		
Total earnings per share	**10.504**	6.807
The net tangible asset per share	**30.96**	28.75

The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:

	GROUP	
	2011	2010
	$000	$000
Net profit for the year	**20,200**	11,958
Earnings used in the calculation of earnings per share	**20,200**	11,958
Weighted average number of ordinary shares for the purposes of earnings per share	**192,297,088**	175,654,345

Notes to Financial Statements *(continued)*

20. FINANCIAL INSTRUMENTS

Detail of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis in which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in the Statement of Accounting Policies.

Categories of financial instruments

	CASH & BANK BALANCES	TRADE & OTHER RECEIVABLES	DERIVATIVES	DEBENTURE NOTE	TOTAL FINANCIAL ASSETS
	$000	$000	$000	$000	$000
GROUP					
2011					
Fair value through profit and loss	**12,766**	**-**	**-**	**-**	**12,766**
Hedge instruments	**-**	**-**	**525**	**-**	**525**
Loans and receivables	**-**	**40,658**	**-**	**-**	**40,658**
Held to maturity	**-**	**-**	**-**	**1,000**	**1,000**
Total financial assets	**12,766**	**40,658**	**525**	**1,000**	**54,949**
2010					
Fair value through profit and loss	9,567	-	-	-	9,567
Hedge instruments	-	-	315	-	315
Loans and receivables	-	39,312	-	-	39,312
Held to maturity	-	-	-	3,000	3,000
Total financial assets	9,567	39,312	315	3,000	52,194
PARENT					
2011					
Fair value through profit and loss	**1,579**	**-**	**-**	**-**	**1,579**
Loans and receivables	**-**	**110**	**-**	**-**	**110**
Total financial assets	**1,579**	**110**	**-**	**-**	**1,689**
2010					
Fair value through profit and loss	630	-	-	-	630
Loans and receivables	-	131	-	-	131
Total financial assets	630	131	-	-	761

	TRADE & OTHER PAYABLES	DERIVATIVES	BORROWINGS	TOTAL FINANCIAL LIABILITIES
	$000	$000	$000	$000
GROUP				
2011				
Fair value through profit and loss	**-**	**-**	**-**	**-**
Hedge instruments	**-**	**420**	**-**	**420**
Other financial liabilities	**23,918**	**-**	**21,846**	**45,764**
Total financial liabilities	**23,918**	**420**	**21,846**	**46,184**
2010				
Fair value through profit and loss	-	522	-	522
Hedge instruments	-	849	-	849
Other financial liabilities	22,634	-	36,495	59,129
Total financial liabilities	22,634	1,371	36,495	60,500
PARENT				
2011				
Fair value through profit and loss	**-**	**-**	**-**	**-**
Other financial liabilities	**667**	**-**	**-**	**667**
Total financial liabilities	**667**	**-**	**-**	**667**
2010				
Fair value through profit and loss	-	-	-	-
Other financial liabilities	958	-	-	958
Total financial liabilities	958	-	-	958

Where the financial assets and financial liabilities are shown at amortised cost, their cost would approximate fair value.

20. FINANCIAL INSTRUMENTS (continued)

Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates.

Details of the derivatives held and their fair value at balance date was as follows:

Derivative financial instruments

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
CURRENT ASSETS				
- Forward currency contract – cash flow hedge	**430**	275	**-**	-
NON-CURRENT ASSETS				
- Forward currency contract – cash flow hedge	**95**	40	**-**	-
Total assets	**525**	315	**-**	-
CURRENT LIABILITIES				
- Forward currency contracts – cash flow hedge	**9**	10	**-**	-
- Forward currency contract – held for trading	**-**	105	**-**	-
- Interest rate swaps – cash flow hedge	**282**	480	**-**	-
- Interest rate swaps – held for trading	**-**	417	**-**	-
Total current liabilities	**291**	1,012	**-**	-
NON-CURRENT LIABILITIES				
- Forward currency contracts – cash flow hedge	**1**	-	**-**	-
- Interest rate swaps – cash flow hedge	**128**	359	**-**	-
Total non current liabilities	**129**	359	**-**	-
Total liabilities	**420**	1,371	**-**	-

(i) Forward exchange contracts

The Group imports a large proportion of its raw materials and finished goods, and has exports sales to a number of customers. As a result, the Group has both inward and outward foreign currency cash flows. Both the inward cash flows and the outward cash flows are tested and hedged against highly probable forecasted sales and purchases. The main currency exposures are in US dollars, Euros and Australian dollars.

At balance date, details of outstanding foreign currency contracts are as follows:

	NOTIONAL AMOUNT		AVERAGE EXCHANGE RATES	
	2011	2010	2011	2010
	NZ$000	NZ$000		
BUY NZD / SELL EUR	**4,582**	3,526	**0.5181**	0.5105
Maturing 1-15 months (2010: 1-3 months)				
BUY NZD / SELL GBP	**1,331**	-	**0.4508**	-
Maturing 1-15 months (2010: N/A)				
BUY EUR / SELL AUD	**1,018**	1,198	**0.7153**	0.6662
Maturing 1-12 months (2010: 1-12 months)				
BUY AUD / SELL USD	**-**	4,005	**-**	0.8262
Maturing N/A (2010: 1-14 months)				
BUY GBP / SELL EUR	**-**	873	**-**	1.1715
Maturing N/A (2010: 1-15 months)				
BUY EUR / SELL USD	**121**	-	**1.4409**	-
Maturing 1-3 months (2010: N/A)				
BUY AUD / SELL GBP	**291**	-	**0.6406**	-
Maturing 1-6 months (2010: N/A)				

The forward currency contracts are considered to be highly effective hedges as they are matched against forecasted inventory purchases and export sales, and any gain or loss on the contracts attributable to the hedge risk is taken directly to other comprehensive income. Amounts are transferred out of other comprehensive income and included in the measurement of the hedged transaction (sales or purchases) when the forecast transaction occurs.

The following forward exchange contracts held were not designated as a cash flow hedge.

BUY USD / SELL NZD	**-**	5,910	**-**	0.6768
Maturing N/A (2010: 1-8 months)				

Movements in the cash flow hedge reserve are recorded in the statement of comprehensive income.

20. FINANCIAL INSTRUMENTS (continued)

(ii) Interest rate swaps - cashflow hedges

Interest bearing loans of the Group bear an average variable interest rate of 5.35 % (2010: 5.23 %). In order to protect against interest rate volatility, the Group entered into interest rate swap contracts under which it has the right to receive interest at variable rates and pay interest at fixed rates. Swaps in place cover approximately 63.2 % (2010: 52 %) of the principal outstanding. The fixed interest rates range between 7.26 % and 7.39 % (2010: 4.25 % and 7.39 %).

At 30 June 2011, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

		GROUP		PARENT	
	MATURITY	2011	2010	2011	2010
	DATE	$000	$000	$000	$000
		AUD	AUD	**AUD**	AUD
AUD Swap 7.26 %	4-Jul-13	**4,000**	4,000	**-**	-
AUD Swap 7.39 %	30-Jan-12	**6,500**	6,500	**-**	-
AUD Swap 7.33 %	27-Jun-11	**-**	5,000	**-**	-
		GBP	GBP	**GBP**	GBP
GBP Swap 5.85 %	4-Oct-10	**-**	3,900	**-**	-
		USD	USD	**USD**	USD
USD Swap 4.25 %	28-Feb-11	**-**	5,000	**-**	-

The interest rate swaps require settlement of net interest receivable each quarter. Swaps which are matched directly against the appropriate loans and interest expense are considered highly effective. These swaps are measured at fair value and all gains attributable to the hedge risk are taken directly to other comprehensive income and reclassified to the Income Statement when the interest expense is recognised.

The USD and GBP swaps became ineffective during 2010, resulting in the ineffective amount of $717,704 being charged directly to the Income Statement. There were no ineffective interest rate swaps during the 2011 year.

Movement in the Cashflow Hedge Reserve is recorded in the Statement of Comprehensive Income.

(iii) Hedge of net investment in foreign operations

As at June 2011, the following foreign currency loans were held as a designated hedge of the net investment in foreign subsidiaries in Australia and Italy. Surplus operating cash flow has resulted in the borrowing held in Euros being partially repaid during the year.

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Australian Dollar	**AUD 15,520**	AUD 15,520	**-**	-
Euro	**EUR 800**	EUR 8,400	**-**	-

Credit risk

Credit Risk arises from potential failure of counter parties to meet their obligations at maturity of contracts. Because the counter party of the above financial derivatives is the ANZ National Bank Ltd, there is minimal credit risk.

Foreign currency denominated monetary assets and monetary liabilities

The Group, through its foreign subsidiaries, holds monetary assets and liabilities that are in a currency other than the parent's base currency. These foreign currency values provide a translation risk to the Group. The monetary assets and liabilities consist primarily of trade receivables, trade creditors and cash as follows:

	2011			2010		
	$000	$000	$000	$000	$000	$000
	CURRENT ASSETS	CURRENT LIABILITIES	NET MONETARY ASSETS	CURRENT ASSETS	CURRENT LIABILITIES	NET MONETARY ASSETS
USD	**3,399**	**2,968**	**431**	2,828	1,775	1,053
AUD	**14,914**	**3,133**	**11,781**	11,972	4,443	7,529
CNY	**15,441**	**4,070**	**11,371**	15,304	2,638	12,666
GBP	**1,635**	**212**	**1,423**	1,224	169	1,055
EUR	**2,895**	**980**	**1,915**	2,245	1,143	1,102
	NZD	**NZD**	**NZD**	**NZD**	**NZD**	**NZD**
NZD equivalent	**34,547**	**10,531**	**24,016**	28,772	11,013	17,759

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of receivables, payables, bank loans and overdrafts, cash and derivatives. Because of these financial instruments, the principal financial risks to the Group are movements in foreign currency and interest rates. Credit risk and liquidity risk are also considered to be risk areas and therefore closely managed.

The Group enters into derivative transactions, principally interest rate swaps and forward foreign currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk by reviewing trading forecasts that impact on these areas.

Credit risk is managed through regular review of aged analysis of receivable ledgers. The credit risk exposures are the receivables recorded in Note 8. The management of this credit risk is also stated in Note 8.

Liquidity risk is monitored through the review of future rolling cash flow forecasts.

These cash flow forecasts are updated on a weekly basis with particular emphasis placed on the prospective four week period. These forecasts are constantly monitored against limitations of the entire debt facility.

The Board reviews and agrees policies for managing financial risk.

RISK EXPOSURES AND RESPONSES

(i) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long term debt obligations.

The level of debt is disclosed in Note 15.

At Balance Date the Group had the following mix of financial assets and liabilities exposed to variable interest rates that are not designated in cash flow hedges:

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
FINANCIAL ASSETS				
- Cash and cash equivalents	**12,766**	9,567	**1,579**	630
FINANCIAL LIABILITIES				
- Bank Loans	**7,904**	17,085	**-**	-
Net exposure	**4,862**	(7,518)	**1,579**	630

Interest rate swap contracts in Note 20 (ii), with a fair value of $410,000, (2010: $1,256,000), are exposed to fair value movements if interest rates change.

The Group's policy is to constantly monitor its interest rate exposure and to hedge the volatility arising from interest rate changes by entering into interest rate swap contracts that cover a minimum of 50 % of the variable interest rate debt. At 30 June 2011, the Group held interest rate swaps which covered 63.2 % of the variable interest rate debt.

Notes to Financial Statements *(continued)*

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The following sensitivity analysis is based on the interest rate risk exposure in existence at balance date. With all other variables held constant, post tax profit and other comprehensive income would be affected as follows:

	NET PROFIT AFTER TAX HIGHER/(LOWER)		OTHER COMPREHENSIVE INCOME HIGHER/(LOWER)	
	2011	2010	2011	2010
	$000	$000	$000	$000
GROUP				
+1% (100 basis points)	**(55)**	(10)	**194**	359
-0.5% (50 basis points)	**28**	5	**(97)**	(180)
PARENT				
+1% (100 basis points)	**-**	-	**-**	-
-0.5% (50 basis points)	**-**	-	**-**	-

Significant assumptions used in the interest rate sensitivity analysis:

(a) Current sources of funds will be available to the Group in the future on similar terms and pricing that have been experienced since the last debt renewal in September 2010.

(b) The relationship with Group bankers will remain strong and confident.

(c) The level of debt and gearing ratios will remain at a level which will not cause bankers to consider a change in the risk profile of the Group.

(d) The net exposure at balance date is representative of what the Group has experienced, and is likely to experience in the next twelve months.

(e) The effect on other comprehensive income is the effect on the cashflow hedge reserve for those derivatives which have an effective hedge.

(ii) Foreign currency risk

The Group imports raw materials and finished goods, and exports finished goods to a number of foreign customers. The main foreign currencies traded are US dollars, Euro, Australian dollars, and Great British pounds.

The Group seeks to cover 80% to 100% of the net foreign currency cash flow forecast, for the next 12 month period with foreign currency contracts. Where the foreign currency cash flows can be reliably forecasted beyond the future 12 month period, such cash flows are also covered by foreign currency contracts to 80% of the forecast cash flows.

The Group also has translational currency exposures. Such exposures arise from subsidiary operating entities who transact in currencies other than the Group's functional currency. The Group has hedged the Net Investment in these foreign subsidiaries by converting some of the external borrowings into same denominated currencies as the functional currency of the foreign subsidiary. However, with the reduction in external borrowings from repayments made from operating cash flows, the ability to hold external borrowings in an equivalent currency to the net involvement in the foreign subsidiary has become limited.

Foreign Currency Net Monetary Assets

As at 30 June 2011 the Group has the following net monetary assets in foreign currency values which are in a different currency to the subsidiary's base currency and will revalue either through the income statement or statement of comprehensive income:

	CASH & CASH EQUIVALENTS	RECEIVABLES	PAYABLES	NET MONETARY ASSETS
	$000	$000	$000	$000
30 JUNE 2011				
USD	**1,683**	**5,487**	**3,459**	**3,711**
AUD	**109**	**1,671**	**73**	**1,707**
GBP	**283**	**653**	**237**	**699**
EUR	**154**	**876**	**211**	**819**
NZD	**-**	**51**	**44**	**7**
30 JUNE 2010				
USD	1,898	6,780	3,655	5,023
AUD	214	1,540	70	1,684
GBP	202	401	226	377
EUR	60	1,216	188	1,088
NZD	-	63	43	20

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The foreign currency denominated values as shown in the above table converted to New Zealand Dollars as follows:

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
FINANCIAL ASSETS				
- Cash and cash equivalents	**2,990**	3,576	**-**	-
- Trade and other receivables	**11,642**	14,805	**-**	27
	14,632	18,381	**-**	27
Financial liabilities				
- Trade and other payables	**5,105**	6,235	**-**	-
Net exposure	**9,527**	12,146	**-**	27

The above monetary assets and liabilities will revalue through the income statement or the statement of comprehensive income if the foreign exchange rate for New Zealand Dollars moves relative to other denominated foreign currencies. The impact of the entries through the income statement or the statement of comprehensive income would be as follows:

	NET PROFIT AFTER TAX HIGHER / (LOWER)		NET EQUITY HIGHER / (LOWER)	
	2011	2010	2011	2010
	$000	$000	$000	$000
GROUP				
Foreign currency rates				
- Increase +10%	**(598)**	(781)	**(598)**	(781)
- Decrease -5%	**346**	452	**346**	452
PARENT				
Foreign currency rates				
- Increase +10%	**-**	(2)	**-**	(2)
- Decrease -5%	**-**	1	**-**	1

The sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end financial assets and liabilities do not reflect the exposure during the year.

Significant assumptions used in the foreign currency exposure sensitivity analysis:

(a) The range of possible foreign exchange rate movements was determined by a review of the last two years' historical movements and economists' view of future movements.

(b) The Group's trend of trading in foreign currency values is not expected to change materially over future periods.

(c) Apart from repayment of foreign currency loans over the reporting period, the Group's net exposure to foreign currency at balance date is representative of past periods and is expected to remain relatively consistent for the future twelve month period.

(d) The price sensitivity of derivatives has been based on a reasonably possible movement of the spot rate applied at balance date.

(e) The effect on other comprehensive income results from foreign currency revaluations through the cash flow hedge reserve and the foreign currency translation reserve.

(f) The sensitivity analysis does not include financial instruments that are non monetary items as these are not considered to give rise to a currency risk.

(iii) Credit risk

All customers who trade with any Group subsidiary on credit terms are subject to credit verification procedures including an assessment of their independent credit rating and financial position. Risk limits are set for individual customers according to their risk profile and where it is considered appropriate, registrations are made on the Personal Property Security Register for debts outstanding in New Zealand to record a secured interest in the products supplied.

Receivable balances are monitored on an ongoing basis with appropriate provisions held for doubtful debts.

The counter parties who hold the debenture note and cash are considered a low credit risk. Refer to Note 12.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Liquidity risk

The Group monitors its future cash inflows and outflows through rolling cashflow forecasts.

At balance date the liquidity risk is considered to be low with the bank facility not fully drawn, compliance with bank covenants, and forecasted cashflows reporting positive operating cash generation for the Group over the next financial year. The following maturity analysis shows the profile of future payment commitments of the Group. With the available bank facility and the ability for the business to generate future positive operating cash inflows, the obligation to meet the forward commitments is considered to be a low risk.

Maturity analysis of financial assets and liabilities

The following table represents both the expected and contractual maturity and cash flows of receipts and payments. There is a further analysis of future operating lease commitments under Note 23 which are not included in this analysis.

BALANCE 30 JUNE 2011	0-6 MONTHS	7-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
	$000	$000	$000	$000	$000
GROUP					
FINANCIAL ASSETS					
Cash and cash equivalents	**12,766**	**-**	**-**	**-**	**12,766**
Trade and other receivables	**39,862**	**796**	**-**	**-**	**40,658**
Derivatives	**215**	**215**	**95**	**-**	**525**
Debenture note	**-**	**1,123**	**-**	**-**	**1,123**
	52,843	**2,134**	**95**	**-**	**55,072**
FINANCIAL LIABILITIES					
Trade and other payables	**22,164**	**1,754**	**-**	**-**	**23,918**
Interest bearing loans	**629**	**629**	**22,048**	**-**	**23,306**
	146	**145**	**129**	**-**	**420**
	22,939	**2,528**	**22,177**	**-**	**47,644**
Net total	**29,904**	**(394)**	**(22,082)**	**-**	**7,428**

The negative cash position in years 1-5 is the result of the term debt expiring in September 2012. We will arrange for a renewal of the term debt facility prior to the September 2012 expiry date.

BALANCE 30 JUNE 2010	0-6 MONTHS	7-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
	$000	$000	$000	$000	$000
GROUP					
FINANCIAL ASSETS					
Cash and cash equivalents	9,567	-	-	-	9,567
Trade and other receivables	37,825	1,487	-	-	39,312
Derivatives	165	110	40	-	315
Debenture note	-	-	3,000	-	3,000
	47,557	1,597	3,040	-	52,194
FINANCIAL LIABILITIES					
Trade and other payables	22,487	147	-	-	22,634
Interest bearing loans	57	57	36,381	-	36,495
Derivatives	325	687	359	-	1,371
	22,869	891	36,740	-	60,500
Net total	24,688	706	(33,700)	-	(8,306)

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Fair Value

Under the International Financial Reporting Standards there are three methods available for estimating fair value of financial instruments.

The methods are:

Level 1 - the fair value is calculated using quoted prices in active markets.

Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices).

Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

In determining the fair value of all financial instruments, the Group has applied the Level 2 method of fair value by using estimated inputs, other than quoted prices, that are observable for assets and liabilities, either directly (as prices) or indirectly (derived from prices).

Financial instruments that use valuation techniques with only observable market inputs include interest rate swaps and foreign exchange contracts.

The financial instruments that have been fair valued by the Group are detailed in Note 20 and have a fair value of $105,000 (2010, $1,056,000).

Notes to Financial Statements *(continued)*

22. RELATED PARTIES

The consolidated financial statements incorporate the following significant companies:

a) Subsidiary Companies	Country of Incorporation	Holding 2011	Holding 2010	Balance Date
Skellerup Industries Limited	New Zealand	**100%**	100 %	30 June
Ultralon Products (NZ) Limited	New Zealand	**100%**	100 %	30 June
Skellerup BRC Limited	New Zealand	**100%**	100 %	30 June
Skellerup Footwear Limited	New Zealand	**100%**	100 %	30 June
Flomax International Limited	New Zealand	**100%**	100 %	30 June
*Conewango Products Corp	United States	**100%**	100 %	30 June
*Masport Inc.	United States	**100%**	100 %	30 June
*Deks Industries Pty Limited	Australia	**100%**	100 %	30 June
*Skellerup Industrial Pty Limited	Australia	**100%**	100 %	30 June
*Skellerup Rubber Products Jiangsu Limited	China	**100%**	100 %	30 June
*Stevens Filterite Limited	New Zealand	**100%**	100 %	30 June
*Thorndon Rubber Co. Limited	New Zealand	**100%**	100 %	30 June
*Rubber Services Limited	New Zealand	**100%**	100 %	30 June
*Jenco Products Pty Limited	Australia	**100%**	100 %	30 June
*Ambic Equipment Limited	United Kingdom	**100%**	100 %	30 June
*Gulf Rubber Australia Pty Limited	Australia	**100%**	100 %	30 June
*Skellerup Rubber Services Limited	New Zealand	**100%**	100 %	30 June
*Tumedei SpA	Italy	**100%**	100 %	30 June

Skellerup Industries Limited is involved in the manufacture and distribution of dairy rubber products, industrial rubber products, rural supplies and vacuum pumps in New Zealand and internationally.

Ultralon Products (NZ) Limited is involved in the manufacture and distribution of closed cell polyethylene and ethyl vinyl acetate foam products in New Zealand and internationally.

Skellerup BRC Limited is non trading.

Skellerup Footwear Limited is a property owning company.

Flomax International Limited was involved in the manufacture and distribution of vacuum pumps and associated equipment in New Zealand and internationally. Distribution of vacuum pumps and associated equipment is now managed through Skellerup Industries Limited.

*Held indirectly by the parent company through its direct subsidiaries:

Conewango Products Corp. distributes dairy rubberware in the North American market.

Masport Inc. distributes vacuum pumps and associated equipment in the North American market.

Deks Industries Pty Limited manufactures, distributes and markets rubber products for the building, plumbing and construction markets in New Zealand, Australia, North America and Europe.

Skellerup Industrial Pty Limited is non trading.

Skellerup Rubber Products Jiangsu Limited manufactures rubber footwear and vacuum pumps in China for the New Zealand, Australian and North American markets.

Stevens Filterite Limited manufactures milk filters for distribution in New Zealand and Australia.

Thorndon Rubber Co. Limited specialises in the recovering of rubber rollers for the printing industry.

Rubber Services Limited is non trading.

Jenco Products Pty Limited is non trading, with the products now distributed to the Australian plumbing industry through Deks Industries Pty Limited.

Ambic Equipment Limited is a marketer and distributor of products for dairy cattle teat hygiene in the United Kingdom, North America, Australia and New Zealand markets.

Gulf Rubber Australia Pty Limited is involved in the design and manufacture of highly technical rubber and associated polymer products for the Australian and North American markets.

Skellerup Rubber Services Limited manufactures and distributes moulded and extruded technical polymer products for the New Zealand market.

Tumedei SpA manufactures, markets and distributes highly technical polymer products for European markets.

22. RELATED PARTIES (continued)

(b) Transactions with related parties

	PARENT	
	2011	2010
	$000	$000
ADVANCES TO SUBSIDIARIES		
- Balance at beginning of year	**30,096**	17,102
- Plus funds advanced to subsidiaries	**-**	12,994
- Less funds repaid by subsidiaries	**(2,206)**	-
Balance at end of year	**27,890**	30,096
Investment in subsidiaries	**46,633**	46,633
Investment and advances	**74,523**	76,729

The parent company provides a treasury service to all subsidiary companies. Funds are advanced and banking facilities arranged to ensure each subsidiary has sufficient funds available for trading. There are no maturity dates for these advances and interest is charged to foreign subsidiaries. Interest rates charged range from 2 % -10 % per annum. The advances are unsecured. There has been no forgiveness of debt.

The parent company receives management fees and dividends from its subsidiaries. Management fees and dividends received were as follows:

	PARENT	
	2011	2010
	$000	$000
Management fees	**3,726**	4,447
Dividends	**4,780**	4,300
Total management fees and dividends	**8,506**	8,747

The above are eliminated on consolidation with the Group.

(c) Compensation of key management

The remuneration of directors and senior management during the year was as follows:

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Short term benefits:				
- Directors' fees	**322**	278	**322**	278
- Senior management	**2,524**	2,599	**778**	757
- Termination benefits	**-**	1,100	**-**	1,100
Contribution to defined benefit schemes				
- Senior management	**48**	33	**9**	-

Notes to Financial Statements *(continued)*

23. LEASE COMMITMENTS

Group as lessee

Operating lease commitments

The Group has entered into commercial leases on properties, motor vehicles, and plant.

The motor vehicle leases, and plant leases, have an average life between 1 and 4 years.

The property leases have a life ranging between 1 and 9 years. Some property leases have rights of renewal.

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Payments recognised as an expense				
- Minimum lease payments	**5,646**	4,719	**35**	38
Non-cancellable operating lease commitments				
- Within one year	**4,366**	4,715	**-**	35
- After one year but not more than five years	**7,103**	9,390	**-**	-
- After more than five years	**1,917**	2,363	**-**	-
Total minimum lease payments	**13,386**	16,468	**-**	35

Finance leases

The Group has entered into finance leases to purchase motor vehicles. These leases have terms ranging from 1 to 3 years.

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Minimum future lease payments	**388**	472	**-**	-
Present value of future lease payments	**343**	378	**-**	-
Reported as:				
- Current liability	**94**	115	**-**	-
- Term liability	**249**	263	**-**	-
Property, plant and equipment under finance leases	**343**	378	**-**	-

Group as lessor

The Group subleases surplus areas of leased properties.

Sublease arrangements range from short terms to 2 year periods.

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Rentals receivable recognised as Revenue	**150**	249	**-**	-

Future rental receivable under lease contract terms is $29,428 (2010: $100,907).

24. SEGMENT INFORMATION

The Group's operating segments are Agri, Industrial and Corporate, being the divisions reported to the executive management and Board of Directors to assess performance of the Group and allocate resources.

The principal measure of performance for each segment is EBIT (earnings before interest and tax). As a result, finance costs and taxation have not been allocated to each segment.

AGRI SEGMENT

The Agri segment manufactures and distributes dairy rubberware which includes milking liners, tubing, filters and feeding teats, together with other related agricultural products and dairy vacuum pumps to global agricultural markets.

INDUSTRIAL SEGMENT

The Industrial segment manufactures and distributes technical polymer products across a number of industrial markets, including construction, infrastructure, automotive, mining and general industrial, together with industrial vacuum pump equipment for a variety of industrial applications worldwide.

CORPORATE SEGMENT

The Corporate segment includes the parent company and other central administration expenses that have not been allocated to the Agri and Industrial segments. With the Group operating a central treasury function, finance costs and costs relating to fair value derivatives have been retained in the corporate segment.

In the prior year unallocated expenditure includes termination benefits paid to the Managing Director, FX losses relating to non trading derivatives and deferred tax adjustments due to changes in tax legislation. Due to the nature of this expenditure and being non repetitive, they have not been allocated to the operating segments.

BUSINESS SEGMENT ANALYSIS

FOR THE YEAR ENDED 30 JUNE 2011	AGRI	INDUSTRIAL	CORPORATE	TOTAL
REVENUE				
Sales to customers	**68,990**	**124,453**	**150**	**193,593**
Total revenue	**68,990**	**124,453**	**150**	**193,593**
RESULT				
Segment EBIT	**17,106**	**20,040**	**(4,919)**	**32,227**
Less unallocated expenses				**-**
Profit before tax and finance costs				**32,227**
Less finance expenses				**2,667**
Profit before tax				**29,560**
Less taxation				**9,360**
Net profit after tax				**20,200**
ASSETS AND LIABILITIES				
Segment assets	**48,029**	**101,870**	**24,032**	**173,931**
Segment liabilities	**10,194**	**20,673**	**32,739**	**63,606**
Net Assets	**37,835**	**81,197**	**(8,707)**	**110,325**
OTHER SEGMENT INFORMATION				
Capital expenditure	**4,410**	**3,195**	**101**	**7,706**
Earthquakes - Impairment expense	**-**	**-**	**1,420**	**1,420**
- Other expenses	**-**	**-**	**2,712**	**2,712**
CASH FLOW				
Segment EBIT	**17,106**	**20,040**	**(4,919)**	**32,227**
Adjustments for:				
- Depreciation and amortisation	**2,634**	**4,212**	**445**	**7,291**
- Impaired assets	**-**	**-**	**1,420**	**1,420**
- Non cash items	**-**	**-**	**(283)**	**(283)**
Movement in working capital	**3,860**	**751**	**(217)**	**4,394**
Segment cash flow	**23,600**	**25,003**	**(3,554)**	**45,049**
Finance and tax cash expense				**(8,569)**
Movement in finance & tax accrual				**(3,458)**
Net cash flow from operating activities				**33,022**

Notes to Financial Statements *(continued)*

24. SEGMENT INFORMATION (continued)

BUSINESS SEGMENT ANALYSIS

FOR THE YEAR ENDED 30 JUNE 2010	AGRI	INDUSTRIAL	CORPORATE	TOTAL
REVENUE				
Sales to customers	64,847	115,623	249	180,719
Total revenue	64,847	115,623	249	180,719
RESULT				
Segment EBIT	15,284	13,768	(4,129)	24,923
Less unallocated expenses				(3,233)
Profit before tax and finance costs				21,690
Less finance expenses				4,785
Profit before tax				16,905
Less taxation				4,947
Net profit after tax				11,958
ASSETS & LIABILITIES				
Segment assets	49,651	102,798	20,329	172,778
Segment liabilities	8,194	20,364	43,330	71,888
Net Assets	41,457	82,434	(23,001)	100,890
OTHER SEGMENT INFORMATION				
Capital Expenditure	1,090	3,867	4	4,961
Impairment Losses	-	-	-	-
CASH FLOW				
Segment EBIT	15,284	13,768	(4,129)	24,923
Plus depreciation and amortisation	2,583	3,959	364	6,906
Movement in working capital	(219)	215	3,516	3,512
Segment cash flow	17,648	17,942	(249)	35,341
Finance expenses and tax				(8,492)
Unallocated operating cash flows				(2,897)
Net cash flow from operating activities				23,952

MAJOR CUSTOMERS

The Agri and Industrial segments generate revenue from a diverse number of customers.

For the Agri segment the three largest customers account for 25.6 % (2010, 23.6 %) of the Agri segment revenue.

For the Industrial segment, the three largest customers account for 11.4 % (2010, 11.7 %) of the Industrial segment revenue.

INTER SEGMENT REVENUE

Intra segment transfer prices are set on an arm's length basis. Such intra segment revenue for the year was $3.903 million (2010, $2.292 million) and relates to a range of Vacuum Pumps which the Industrial segment manufactures and transfers to the Agri segment to fulfill the sales demand for Agri customers.

Inter segment revenue and expenses within each segment are eliminated prior to disclosing the consolidated result for the individual segment.

SEGMENT REVENUE RECONCILIATION

(a) Inter/Intra Segment Revenue

FOR THE YEAR ENDED 30 JUNE 2011	AGRI	INDUSTRIAL	CORPORATE	ELIM.	TOTAL
	$000	$000	$000	$000	$000
GROSS REVENUE	**83,684**	**142,659**	**-**	**(32,900)**	**193,443**
Less inter segment revenue	**(14,694)**	**(14,303)**	**-**	**28,997**	**-**
Less intra segment revenue	**-**	**(3,903)**	**-**	**3,903**	**-**
Other revenue	**-**	**-**	**150**	**-**	**150**
Total revenue	**68,990**	**124,453**	**150**	**-**	**193,593**

FOR THE YEAR ENDED 30 JUNE 2010	AGRI	INDUSTRIAL	CORPORATE	ELIM.	TOTAL
	$000	$000	$000	$000	$000
GROSS REVENUE	79,907	128,066	-	(27,503)	180,470
Less inter segment revenue	(15,060)	(10,151)	-	25,211	-
Less intra segment revenue	-	(2,292)	-	2,292	-
Other revenue	-	-	249	-	249
Total revenue	64,847	115,623	249	-	180,719

24. SEGMENT INFORMATION (continued)

(b) Geographic Revenue

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to each geographic location based on the location of the customers. Differences in foreign currency translation rates can impact comparisons between years, particularly with the USD, EUR and GBP, where these currencies were weaker compared to the NZD during the 2010 year.

	2011 $000	2010 $000
New Zealand	**47,201**	41,628
Australia	**56,085**	58,894
North America	**43,145**	36,709
Europe	**24,666**	20,981
U.K. & Ireland	**11,833**	12,442
Asia	**7,457**	6,450
Other	**3,206**	3,615
Total revenue	**193,593**	180,719

(c) Assets by Geographic Location

The non-current segment assets are scheduled by the geographic location where the asset is held.

The non-current assets, which include property plant & equipment, goodwill, intangible assets and investments & advances, for each geographic location is as follows:

	2011 $000	2010 $000
New Zealand	**42,305**	45,050
Australia	**17,519**	17,622
Europe	**15,901**	16,556
U.K.	**7,352**	7,961
China	**3,997**	4,945
North America	**478**	426
Non-current assets by geographic location	**87,552**	92,560

25. CASH FLOW RECONCILIATION

Reconciliation of net profit after tax to net cashflow from operations

	NOTE	GROUP		PARENT	
		2011 $000	2010 $000	2011 $000	2010 $000
NET PROFIT AFTER TAX		**20,200**	11,958	**5,740**	4,468
Adjustments for:					
- Depreciation	10	**6,411**	6,054	**1**	1
- Amortisation	11	**880**	852	**-**	-
- Impaired assets		**1,420**	-	**-**	-
- Foreign currency movements on translating foreign assets and liabilities		**(409)**	494	**-**	-
- Bad debts written off		**37**	39	**-**	-
- Ineffective portion of cash flow hedges charged to Income Statement	6	**9**	823	**-**	-
- Loss on sale of assets	6	**80**	220	**-**	-
- Net movement in working capital		**4,394**	3,512	**108**	173
Net cash inflow from operating activities		**33,022**	23,952	**5,849**	4,642

Notes to Financial Statements *(continued)*

26. CONTINGENT ASSETS AND LIABILITIES

(a) Contingent Assets

	NOTE	GROUP		PARENT	
		2011	2010	2011	2010
		$000	$000	$000	$000
- Canterbury earthquakes insurance recovery	6	**-**	-	**-**	-

Because the insurance proceeds relating to the damaged buildings cannot be reliably estimated the contingent asset cannot be quantified.

(b) Contingent Liabilities

	GROUP		PARENT	
	2011	2010	2011	2010
	$000	$000	$000	$000
Bank guarantees	**75**	75	**75**	75
Total contingent liabilities	**75**	75	**75**	75

The Bank Guarantee is provided to the NZ Exchange.

27. CANTERBURY EARTHQUAKES

As a result of the Canterbury earthquakes the following income and costs have been recorded in the Group financial statements:

	INCOME STATEMENT $000		BALANCE SHEET $000
Buildings		Buildings	
		Cost	1,682
		Accumulated depreciation	262
Impairment - accelerated depreciation	1,420	Impairment-accelerated depreciation	1,420
		Book Value	**-**
Earthquake Expenses			
Increased costs for repairs and to maintain operations	2,712		
Total expenses	**4,132**		
Other Income			
Provisional cash settlement from insurers	1,414		
Receivable from insurers	2,718	**Receivable**	**2,718**
Total Other Income	**4,132**		

The Skellerup owned buildings on the Woolston, Christchurch site which have been damaged have now been fully depreciated and their book value is zero. These buildings have full insurance cover under a replacement insurance policy. These buildings were primarily tenanted by external parties.

The agri manufacturing operations on the Woolston site are located in leased buildings. There has been no damage to the machinery however the leased buildings have incurred damage and will also be subject to an insurance claim.

Skellerup has also expensed $73,000 in administration expenses being the insurance deductible based upon the above expenses.

Skellerup is currently working with its engineering consultants and insurance specialists to lodge its insurance claim for material damage and business interruption with the underwriters. The claims will be recognised when the receivable is virtually certain and can be reliably measured.

28. SIGNIFICANT EVENTS AFTER BALANCE DATE

The directors have agreed to pay a final dividend fully imputed, of 4.0 cents per share on 21 October 2011, to shareholders on the register at 5pm on 7 October 2011.

There are no other events subsequent to balance date that require additional disclosure.

Other Annual Report Disclosures

DIRECTORS

(a) Directors holding office during the year

Sir Selwyn Cushing	(Non-Executive)
Elizabeth Coutts	(Independent)
David Mair	(Chief Executive)
John Thompson	(Non-Executive)
Dr Ian Parton	(Independent) – appointed 16 May 2011

(b) Directors' Remuneration and Other Benefits

Directors' remuneration and other benefits required to be disclosed pursuant to section 211(1) of the Companies Act 1993 for the year ended 30 June 2011 were as follows:

	GROUP AND PARENT	
	2011	2010
	$000	$000
Sir Selwyn Cushing	**130**	90
Elizabeth Coutts	**75**	60
John Thompson	**65**	55
Dr Ian Parton	**8**	-
David Mair	**4**	55
Graham Fraser	**-**	23
Total directors fees	**282**	283
David Mair - Salary and contributions to deferred benefits	**452**	-
Donald Stewart - Salary	**-**	500
- Termination benefits and annual leave entitlements	**-**	1,180

An additional payment was made to Mrs Coutts ($40,000) during the year in respect of work carried out on behalf of the company during the 2010 financial year, outside the normal duties of a director.

EMPLOYEE REMUNERATION

The number of employees whose remuneration and benefits are within defined bands are as follows:

REMUNERATION RANGE	NO. OF EMPLOYEES	REMUNERATION RANGE	NO. OF EMPLOYEES	REMUNERATION RANGE	NO. OF EMPLOYEES
$100K-$109K	9	$180K-$189K	2	$290K-$299K	2
$110K-$119K	21	$190K-$199K	4	$320K-$329K	1
$120K-$129K	13	$200K-$209K	1	$350K-$359K	1
$130K-$139K	6	$210K-$219K	7	$360K-$369K	1
$140K-$149K	7	$220K-$229K	3	$380K-$389K	1
$150K-$159K	4	$240K-$249K	2	$390K-$399K	2
$160K-$169K	5	$250K-$259K	2	$450K-$459K	1
$170K-$179K	3	$270K-$279K	1	$620K-$619K	1

The above includes salaries, benefits and performance incentive payments. Executives based in foreign subsidiaries have been included in the above analysis in New Zealand dollars which have been converted at exchange rates ruling at 30 June 2011.

STATEMENT OF DIRECTORS' SHAREHOLDINGS

Directors held the following equity securities in the Company

	NON BENEFICIAL INTEREST	HELD BENEFICIALLY	HELD BY ASSOCIATED PERSONS
	30 JUNE 2011	30 JUNE 2011	30 JUNE 2011
Sir Selwyn Cushing	1,137,500		12,173,826
Elizabeth Coutts			571,960
David Mair			2,427,506
John Thompson			13,697,942
Dr Ian Parton			20,000

Other Annual Report Disclosures *(continued)*

During the year the following directors (or associated persons) acquired or disposed of equity securities in the Company

	NUMBER OF SHARES ACQUIRED	CLASS OF SHARES	CONSIDERATION PAID	DATE OF TRANSACTION
Elizabeth Coutts	14,418*	Ordinary	13,341	21/10/2010

*Purchased under Dividend Reinvestment Plan

SHAREHOLDER INFORMATION

Substantial Security Holders

Pursuant to Section 26 of the Securities Amendment Act 1988, the substantial security holders as at 1 September 2011 were as follows:

AMP Capital Investors Limited	38,912,026	20.182 %
Balmain Trust and related entities	13,697,947	7.105 %
Sir Selwyn Cushing	12,173,826	6.314 %
Accident Compensation Corporation	10,766,754	5.584 %

Principal Shareholders

The names and holdings of the twenty largest registered shareholders as at 1 September 2011

1	AMP Investment Strategic Equity Growth Fund	20,027,663	10.387 %
2	Accident Compensation Corporation	10,766,754	5.584 %
3	H & G Limited	10,616,169	5.506 %
4	Investment Custodial Services Limited (A/C 990018567)	9,399,947	4.875 %
5	N Z Superannuation Fund Nominees Limited	9,364,830	4.857 %
6	NZGT Nominees Limited - AIF Equity Fund	8,708,527	4.517 %
7	TEA Custodians Limited	4,678,038	2.426 %
8	Investment Custodial Services Limited	4,165,000	2.160 %
9	S K Shares Limited	3,877,486	2.011 %
10	New Zealand Permanent Trustees Limited	3,265,000	1.693 %
11	Superlife Trustee Nominees Limited	3,084,836	1.600 %
12	Citibank Nominees (NZ) Limited	2,579,058	1.338 %
13	D W Mair & J G Phipps	2,427,506	1.259 %
14	Custody and Investment Nominees Limited	2,290,083	1.188 %
15	Forsyth Barr Custodians Limited	2,214,588	1.149 %
16	Maxima Investments Limited	2,000,000	1.037 %
17	Seajay Securities Limited	1,457,642	0.756 %
18	Custodial Services Limited	1,323,999	0.687 %
19	Asteron Life Life Limited	1,227,226	0.637 %
20	New Zealand Depository Nominee Limited	1,224,160	0.635 %
		104,698,512	54.303 %
	TOTAL SHARES ON ISSUE	**192,805,807**	

Distribution of Shareholding as at 1 September 2011

SIZE OF SHAREHOLDING	TOTAL SHARES HELD	%
1 - 4,999	4,236,486	2.20 %
5,000 - 9,999	8,241,983	4.27 %
10,000 - 49,999	33,054,604	17.14 %
50,000 - 99,999	12,131,793	6.29 %
100,000 - 499,999	17,161,934	8.90 %
500,000 - 999,999	8,763,581	4.55 %
1,000,000 and over	109,215,426	56.65 %
TOTAL SHARES ON ISSUE	**192,805,807**	**100.00%**

Corporate Directory

Directors

Sir Selwyn Cushing, KNZM, CMG
CHAIRMAN

E.M. Coutts, B.M.S., C.A.

D.W. Mair, B.E., M.B.A.

J.C. Thompson

I.M. Parton, BE(Hons), Ph.D,
DistFIPENZ, FIoD

Management

D.W. Mair, B.E., M.B.A.
CHIEF EXECUTIVE OFFICER

G.P. Keogh, C.A.
CHIEF FINANCIAL OFFICER

J.H. Greenwood, B.Com., F.C.A.
COMPANY SECRETARY

Registered Office

1–37 Mt Wellington Highway
Mt Wellington
Auckland
New Zealand

PO Box 14-537
Panmure
Auckland 1741
New Zealand

Telephone +64 9 571 1208
Email info@skellerupholdings.co.nz
Website www.skellerupholdings.co.nz

Legal Advisors

Chapman Tripp
23-29 Albert Street
Auckland
New Zealand

Bankers

ANZ National Bank Limited
22-29 Albert Street
Auckland
New Zealand

Auditors

Ernst & Young
2 Takutai Square
Britomart
Auckland
New Zealand 1010

Share Registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna, North Shore City 0622
New Zealand

Managing your shareholding online

To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit;

www.computershare.co.nz/investorcentre

General enquiries can be directed to;
enquiry@computershare.co.nz

Private Bag 92119, Auckland 1142

Telephone +64 9 488 8777
Facsimile +64 9 488 8787

Please assist our registrar by quoting your CSN or shareholder number.