SKELLERUP

SKELLERUP HOLDINGS LIMITED

Financial Statements

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AUDITOR'S REPORT

Chartered Accountants

Ernst & Young

To the Shareholders of Skellerup Holdings Limited

We have audited the financial statements of Skellerup Holdings Limited and its subsidiaries on pages 34 to 79, which comprise the statement of financial position of Skellerup Holdings Limited and the group as at 30 June 2010, 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 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.

Opinion

In our opinion, the financial statements on pages 34 to 79:

- 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 2010 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations 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 2010
Auckland

DIRECTORS' RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

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 2010, and the results of their operations and cash flows for the year ended 30 June 2010.

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 2010.

This Annual Report is dated 24 August 2010 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

S Cushing

Sir Selwyn Cushing
Chairman of the Board of Directors

EM Coutts

Elizabeth Coutts
Director

FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

	NOTES	GROUP		PARENT	
Continuing operations		2010 $000	2009 $000	2010 $000	2009 $000
Revenue					
Operating revenue from continuing operations	2	**180,719**	180,857	**8,747**	8,234
Less cost of sales		**110,881**	113,249	**-**	-
Gross profit		**69,838**	67,608	**8,747**	8,234
Plus other income	3	**1,087**	2,369	**31**	106
Less distribution expenses		**13,085**	14,694	**-**	-
Less marketing expenses		**14,312**	17,406	**-**	-
Less administration expenses		**21,838**	18,830	**2,959**	1,809
Profit for the year from continuing operations before tax and finance costs		**21,690**	19,047	**5,819**	6,531
Less finance costs	4	**4,785**	5,873	**1,276**	1,773
Profit for the year from continuing operations before tax		**16,905**	13,174	**4,543**	4,758
Less income tax expense	5	**4,947**	4,181	**75**	883
Net profit for the year from continuing operations		**11,958**	8,993	**4,468**	3,875
Discontinued operations					
Profit for the year from discontinued operations	6	**-**	182	**-**	-
Net profit for the year		**11,958**	9,175	**4,468**	3,875
Earnings per share					
From continuing and discontinued operations:					
Basic earnings per share	20	**6.807**	6.879	**-**	-
Diluted earnings per share	20	**6.807**	6.879	**-**	-
From continuing operations:					
Basic earnings per share	20	**6.807**	6.743	**-**	-
Diluted earnings per share	20	**6.807**	6.743	**-**	-

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

FINANCIAL STATEMENTS (continued)

BALANCE SHEET

AS AT 30 JUNE 2010

	NOTES	GROUP		PARENT	
		2010 $000	2009 $000	2010 $000	2009 $000
Current Assets					
Cash and cash equivalents	8	**9,567**	6,853	**630**	3,078
Trade and other receivables	9	**39,312**	31,750	**131**	96
Inventories	10	**28,159**	35,029	**-**	-
Income tax receivable	5	**329**	302	**37**	48
Derivative financial assets	21	**275**	222	**-**	-
Total Current Assets		**77,642**	74,156	**798**	3,222
Non-Current Assets					
Property, plant and equipment	11	**38,652**	43,119	**-**	1
Deferred tax assets	5	**2,536**	2,698	**3**	124
Goodwill	12	**46,031**	49,336	**-**	-
Intangible assets	12	**4,877**	5,610	**-**	-
Derivative financial assets	21	**40**	193	**-**	-
Investments and advances	13	**3,000**	3,000	**76,729**	63,735
Total Non-Current Assets		**95,136**	103,956	**76,732**	63,860
Total Assets		**172,778**	178,112	**77,530**	67,082
Current Liabilities					
Trade and other payables	14	**22,634**	19,895	**958**	685
Provisions	15	**6,273**	6,361	**10**	153
Interest bearing loans and borrowings	16	**115**	246	**-**	-
Income tax payable	5	**1,976**	1,170	**-**	-
Derivative financial liabilities	21	**1,012**	3,402	**-**	175
Total Current Liabilities		**32,010**	31,074	**968**	1,013
Non-Current Liabilities					
Provisions	15	**1,140**	1,493	**-**	1
Interest bearing loans and borrowings	16	**36,380**	71,886	**-**	12,500
Derivative financial liabilities	21	**359**	1,178	**-**	-
Deferred tax liabilities	5	**1,999**	1,051	**-**	-
Total Non-Current Liabilities		**39,878**	75,608	**-**	12,501
Total Liabilities		**71,888**	106,682	**968**	13,514
Net Assets		**100,890**	71,430	**76,562**	53,568
Equity					
Equity attributable to equity holders of the parent					
Share capital	17	**68,198**	46,025	**68,198**	46,025
Reserves	18	**(5,314)**	(4,406)	**-**	(122)
Retained earnings	19	**38,006**	29,811	**8,364**	7,665
Total Equity		**100,890**	71,430	**76,562**	53,568

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

For and on behalf of the Board, which authorised these Financial Statements on 24 August 2010.

Sir Selwyn Cushing
Chairman of the Board of Directors

Elizabeth Coutts
Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	NOTES	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Net profit after tax for the year		**11,958**	9,175	**4,468**	3,875
OTHER COMPREHENSIVE INCOME					
Net gains/(losses) on hedge of net investments	18	**(2,454)**	2,416	**-**	-
Foreign exchange movements on translation of foreign operations	18	**(1,181)**	373	**-**	-
Net gains/(losses) on cash flow hedges	18	**3,461**	(3,705)	**175**	(605)
Deferred tax relating to components of other comprehensive income	5	**(734)**	861	**(53)**	182
Other comprehensive income net of tax		**(908)**	(55)	**122**	(423)
Total comprehensive income for the period		**11,050**	9,120	**4,590**	3,452
Attributable to:					
- Equity holders of parent		**11,050**	9,120	**4,590**	3,452
- Non-controlling interests		**-**	-	**-**	-
		11,050	9,120	**4,590**	3,452

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

FINANCIAL STATEMENTS (continued)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

GROUP	NOTES	FULLY PAID ORDINARY SHARES $000	CASH FLOW HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	TOTAL $000
Balance at 1 July 2008		44,254	(147)	(4,204)	31,895	71,798
Net profit after tax for year ended 30 June 2009		-	-	-	9,175	9,175
Other comprehensive income	18	-	(2,593)	2,538	-	(55)
Total comprehensive income for the period		-	(2,593)	2,538	9,175	9,120
Issue of share capital	17	1,771	-	-	-	1,771
Dividends	19	-	-	-	(11,259)	(11,259)
Balance at 30 June 2009		46,025	(2,740)	(1,666)	29,811	71,430
Net profit after tax for the year ended 30 June 2010		-	-	-	**11,958**	**11,958**
Other comprehensive income	18	**-**	**2,433**	**(3,341)**	**-**	**(908)**
Total comprehensive income for the period		**-**	**2,433**	**(3,341)**	**11,958**	**11,050**
Issue of share capital	17	**22,974**	**-**	**-**	**-**	**22,974**
Transaction costs	17	**(801)**	**-**	**-**	**-**	**(801)**
Dividends	19	**-**	**-**	**-**	**(3,763)**	**(3,763)**
Balance at 30 June 2010		**68,198**	**(307)**	**(5,007)**	**38,006**	**100,890**

PARENT	NOTES	FULLY PAID ORDINARY SHARES $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL $000
Balance at 1 July 2008		44,254	301	15,061	59,616
Net profit after tax for year ended 30 June 2009		-	-	3,875	3,875
Other comprehensive income	18	-	(423)	-	(423)
Total comprehensive income for the period		-	(423)	3,875	3,452
Issue of share capital	17	1,771	-	-	1,771
Dividends	19	-	-	(11,271)	(11,271)
Balance at 30 June 2009		46,025	(122)	7,665	53,568
Net profit after tax for the year ended 30 June 2010		-	-	**4,468**	**4,468**
Other comprehensive income	18	**-**	**122**	**-**	**122**
Total comprehensive income for the period		**-**	**122**	**4,468**	**4,590**
Issue of share capital	17	**22,974**	**-**	**-**	**22,974**
Transaction costs	17	**(801)**	**-**	**-**	**(801)**
Dividends	19	**-**	**-**	**(3,769)**	**(3,769)**
Balance at 30 June 2010		**68,198**	**-**	**8,364**	**76,562**

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 2010

	NOTES	GROUP		PARENT	
		2010 $000	2009 $000	2010 $000	2009 $000
Cash flows from operating activities					
Receipts from customers (inclusive of GST/VAT)		**169,073**	197,710	**-**	-
Interest received		**479**	1,014	**31**	106
Dividends received		**-**	-	**4,300**	4,200
Payments to suppliers and employees (inclusive of GST/VAT)		**(137,108)**	(170,677)	**(2,819)**	(2,228)
Income tax refund/(paid)		**(3,660)**	806	**4**	173
Interest paid		**(4,832)**	(5,900)	**(1,321)**	(1,801)
Management fees received		**-**	-	**4,447**	4,034
Net cash flows from / (used in) operating activities	26	**23,952**	22,953	**4,642**	4,484
Cash flows from investing activities					
Proceeds from sale of discontinued operations	6	**-**	1,432	**-**	-
Proceeds from sale of property, plant and equipment		**1,026**	221	**-**	-
Payments for property, plant and equipment	11	**(4,961)**	(6,778)	**-**	(1)
Payments for intangible assets	12	**(163)**	(333)	**-**	-
Proceeds from/(payments to) related parties	23	**-**	-	**(12,994)**	20,451
Net cash flows from / (used in) investing activities		**(4,098)**	(5,458)	**(12,994)**	20,450
Cash flows from financing activities					
Proceeds from issue of equity shares	17	**21,536**	-	**21,536**	-
Transaction cost of equity shares	17	**(801)**	-	**(801)**	-
Repayment of borrowings		**(35,637)**	(9,749)	**(12,500)**	(13,000)
Dividends paid to equity holders of parent		**(2,325)**	(9,488)	**(2,331)**	(9,500)
Net cash flows from / (used in) financing activities		**(17,227)**	(19,237)	**5,904**	(22,500)
Net increase / (decrease) in cash and cash equivalents		**2,627**	(1,742)	**(2,448)**	2,434
Cash and cash equivalents at the beginning of the year		**6,853**	7,780	**3,078**	644
Effect of exchange rate fluctuations		**87**	815	**-**	-
Cash and cash equivalents at the end of the year	8	**9,567**	6,853	**630**	3,078

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 2010

1. CORPORATE INFORMATION

The financial statements of Skellerup Holdings Limited for the year ended 30 June 2010 were authorised for issue in accordance with a resolution of the directors on 24 August 2010.

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 25.

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 2010 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 2010 ('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 2010, 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	Amendments to New Zealand Accounting Standards arising from the Annual Improvements Project	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes (some of which are summarised below), while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The amendment to NZ IAS 1 stipulates that the terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to NZ IAS 7 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to NZ IAS 36 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to NZ IAS 39 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	1 January 2010	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 2010
NZ IFRS 9	Financial Instruments	This standard is part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value.	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 IAS 24	Related Party Disclosures (Revised 2009)	This Standard makes amendments to NZ IAS 24 *Related Party Disclosures*. 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 January 2011	The amendments simplify the definition of a related party and provide a partial exemption from the disclosure requirements for government-related entities.	1 July 2011
NZ IFRIC 14	Amendments to NZ IFRIC 14 Prepayments of a Minimum Funding Requirement	This amendment provides entities with the ability to recognize an asset for prepayments of minimum funding requirement contributions.	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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 a 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.

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 deemed 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 not be recoverable.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of the business combination 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 profit or loss.

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 and development costs. A 10-year straight line amortisation rate is currently used.

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.

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 profit or loss, 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 profit or loss, 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 profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. 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 profit or loss.

(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 profit or loss 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 profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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.

Where certain businesses within New Zealand, who qualify to be under the Accident Compensation Commission Partnership Program, a provision is made for the future liability of work related incident medical costs. Such costs are determined by actuarial calculation and discounted to present values.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

NOTES TO THE FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 12.

(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 15.

(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 10.

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 11.

(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 22 (iv), management has disclosed their estimates of the timing of future cash commitments from the realisation of financial assets and financial liabilities.

(ad) Changes to accounting policies

There have been no changes to accounting policies during the reported period other than the application of following new standards and interpretations:

- NZ IFRIC 16 - Hedges of a Net Investment in a Foreign Operation
- NZ IFRS 8 - Operating Segments
- NZ IAS 23 (Revised) - Borrowing Costs
- NZ IAS 1 (Revised) - Presentation of Financial Statements
- NZ IFRS 3 (Revised) - Business Combinations
- NZ IAS 27 (Revised) - Consolidated and Separate Financial Statements
- NZ IFRS 7 - Financial Instruments : Disclosures

NOTES TO FINANCIAL STATEMENTS

2. OPERATING REVENUE

An analysis of the revenue for the year, for both continuing and discontinued operations is as follows:

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Continuing operations:					
Sale of goods		**180,470**	180,630	**-**	-
Management fees from subsidiaries	23	**-**	-	**4,447**	4,034
Rental revenue	24	**249**	227	**-**	-
Dividends from subsidiaries	23	**-**	-	**4,300**	4,200
Continuing operations – operating revenue		**180,719**	180,857	**8,747**	8,234
Discontinued operations:					
Sale of goods	6	**-**	3,227	**-**	-
Total operating revenue		**180,719**	184,084	**8,747**	8,234

3. OTHER INCOME

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Continuing operations					
Interest income		**479**	1,014	**31**	106
Government grants received		**358**	362	**-**	-
Gain on disposal of property, plant and equipment		**-**	275	**-**	-
Foreign currency gains		**-**	524	**-**	-
Other sundry income		**250**	194	**-**	-
Continuing operations – other income		**1,087**	2,369	**31**	106
Discontinued operations					
Gain on divestment	6	**-**	39	**-**	-
Total other income		**1,087**	2,408	**31**	106

4. FINANCE COSTS

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Interest on bank overdrafts and borrowings		**3,721**	5,523	**401**	1,423
Bank facility fees		**1,047**	350	**875**	350
Interest on finance leases		**17**	-	**-**	-
Total finance costs		**4,785**	5,873	**1,276**	1,773

5. TAXATION

(a) Income Statement

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Current income tax					
Current income tax charge/(credit)		**4,567**	3,719	**7**	-
Prior year adjustments		**(261)**	(672)	**-**	-
Deferred income tax					
Relating to origination and reversal of temporary differences		**7**	808	**66**	594
Due to change in tax legislation		**80**	-	**-**	-
Due to change in tax rates		**139**	-	**-**	-
Prior year adjustments		**18**	556	**2**	289
Effect of movements in foreign currencies		**397**	(146)	**-**	-
Income tax as per income statement		**4,947**	4,265	**75**	883
Continuing operations		**4,947**	4,181	**75**	883
Discontinued operations	6	**-**	84	**-**	-
Income tax as per income statement		**4,947**	4,265	**75**	883

(b) Amounts charged to other comprehensive income

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Reserves					
Deferred tax on forward exchange and interest rate swap derivatives taken to the hedge reserve	18	**1,028**	(1,112)	**53**	(182)
Deferred tax on unrealised foreign exchange gains/(losses) in year taken to foreign currency revaluation reserve	18	**(294)**	251	**-**	-
Total income tax to other comprehensive income		**734**	(861)	**53**	(182)

5. TAXATION (continued)

(c) Reconciliation

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Profit from continuing operations		**16,905**	13,174	**4,543**	4,758
Profit from discontinued operations	6	**-**	266	**-**	-
Total profit		**16,905**	13,440	**4,543**	4,758
Total profit as reported		**16,905**	13,440	**4,543**	4,758
Less tax charge		**4,947**	4,265	**75**	883
Tax percentage		**29.3%**	31.7%	**1.7%**	18.6%
Net profit after tax		**11,958**	9,175	**4,468**	3,875
Tax % at parent company rate		**30%**	30%	**30%**	30%
Tax at parent company rate		**5,071**	4,032	**1,363**	1,427
Due to change in tax legislation		**80**	-	**-**	-
Due to change in tax rates		**139**	-	**-**	-
Adjustments for prior years		**(243)**	(116)	**2**	289
Non deductibles/(non taxables)		**(137)**	132	**(1,290)**	(1,260)
Effect of different foreign tax rates		**24**	91	**-**	-
Tax benefit/(loss) from utilising losses not previously recognised		**-**	-	**-**	427
Effect of movements in foreign currencies		**13**	126	**-**	-
Income tax as per income statement		**4,947**	4,265	**75**	883
Continuing operations		**4,947**	4,181	**75**	883
Discontinued operations	6	**-**	84	**-**	-
Income tax as per income statement		**4,947**	4,265	**75**	883

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 current 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 $139,000 for the current period.

(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.
The impact has resulted in an additional deferred tax charge for the current period of $79,964 as a result of the tax depreciation base for buildings being reduced to zero for future periods.

5. TAXATION (continued)

(d) Recognised current and deferred tax assets and liabilities

	NOTE	GROUP 2010 CURRENT INCOME TAX $000	2010 DEFERRED INCOME TAX $000	2009 CURRENT INCOME TAX $000	2009 DEFERRED INCOME TAX $000
Opening balance		**(868)**	**1,647**	3,131	4,271
Charged to income					
Current year charge		**(4,567)**	**(87)**	(3,719)	(808)
Prior year adjustments		**261**	**(18)**	672	(556)
Payments/(refunds)		**3,660**	**-**	(806)	-
Effect of change in future tax rates		**-**	**(139)**	-	-
Charged to other comprehensive income					
Deferred tax on forward exchange and interest rate swap derivatives taken to the hedge reserve	18	**-**	**(1,028)**	-	1,112
Deferred tax on unrealised foreign exchange gains in year taken to foreign currency revaluation reserve	18	**-**	**294**	-	(251)
Adjustment to goodwill due to the fair valuing of assets acquired in the purchase of companies	12	**-**	**-**	-	(2,101)
Effect of movements in foreign currencies		**(133)**	**(132)**	(146)	(20)
Closing balance		**(1,647)**	**537**	(868)	1,647
Amounts recognised in the balance sheet:					
- Tax asset		**329**	**2,536**	302	2,698
- Tax liability		**(1,976)**	**(1,999)**	(1,170)	(1,051)
Net tax asset/(liability)		**(1,647)**	**537**	(868)	1,647

	GROUP 2010 DEFERRED INCOME TAX $000	2009 DEFERRED INCOME TAX $000
(i) Deferred Tax Liabilities		
Accelerated depreciation	**(4,044)**	(3,953)
Gross deferred tax liabilities	**(4,044)**	(3,953)
(ii) Deferred Tax Assets		
Inventory	**592**	538
Restructuring	**-**	119
Annual leave, long service leave (including sick leave)	**1,457**	1,375
Doubtful debts	**211**	208
Warranty	**489**	493
General	**997**	1,229
Derivatives	**149**	1,174
Loss available for future offset	**686**	464
Gross deferred tax assets	**4,581**	5,600
Set-off deferred tax liabilities	**(4,044)**	(3,953)
Net deferred tax assets	**537**	1,647

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

NOTES TO FINANCIAL STATEMENTS

5. TAXATION (continued)

	NOTE	PARENT 2010 CURRENT INCOME TAX $000	2010 DEFERRED INCOME TAX $000	2009 CURRENT INCOME TAX $000	2009 DEFERRED INCOME TAX $000
Opening balance		**48**	**124**	221	825
Charged to income		**(7)**	**(66)**	-	(594)
Charged to income – previous year		**-**	**(2)**	-	(289)
Payments		**(4)**	**-**	(173)	-
Charged to other comprehensive income					
Deferred tax on interest rate swap derivatives taken to the hedge reserve	18	**-**	**(53)**	-	182
Closing balance		**37**	**3**	48	124
Amounts recognised in the balance sheet:					
- Tax asset		**37**	**3**	48	124
- Tax liability		**-**	**-**	-	-
Net tax asset		**37**	**3**	48	124

	PARENT 2010 DEFERRED INCOME TAX $000	2009 DEFERRED INCOME TAX $000
(i) Deferred tax liabilities		
Derivatives	**-**	-
Gross deferred tax liabilities	**-**	-
(ii) Deferred tax assets		
Provisions:		
Annual leave, long service leave (including sick leave)	**3**	71
Other	**-**	53
Gross deferred tax assets	**3**	124

IMPUTATION CREDIT ACCOUNT

	GROUP 2010 $000	2009 $000	PARENT 2010 $000	2009 $000
Balance at beginning of year	**5,321**	14,901	**4,531**	8,236
Attached to dividends received	**-**	-	**1,843**	2,019
Attached to dividends paid	**(1,847)**	(5,511)	**(1,847)**	(5,511)
Income tax paid/(refunds) in New Zealand	**1,711**	(4,069)	**77**	(213)
Total imputation credits	**5,185**	5,321	**4,604**	4,531

NOTES TO FINANCIAL STATEMENTS

6. DISCONTINUED OPERATIONS

(a) Detail of discontinued operations

There were no discontinued businesses during the year ended 30 June 2010.

During the prior year, the Group divested the Alucobond distribution and contracting business unit. A Sale and Purchase Agreement dated 3 December 2008 was executed to define the terms of reference for this divestment, with the settlement date being 30 January 2009.

(b) Financial performance of discontinued operations

	NOTE	2010 $000	2009 $000
Revenue	2	-	3,227
Less cost of sales		-	2,423
Gross profit		-	804
Plus sundry income		-	-
Less overheads		-	577
Plus gain on disposal		-	39
Profit before tax		-	266
Less attributable income tax	5	-	84
Net profit from discontinued operations		-	182

(c) Assets and liabilities

	2010 $000	2009 $000
Assets		
- Trade & other debtors	-	41
- Inventory	-	665
Liabilities		
- Trade & other creditors	-	-
Net assets attributable to discontinued operations	-	706

The net assets are included in the Group's balance sheet at 30 June 2009. The Group retained responsibility to collect debtors and realise payables as part of the terms and conditions of sale of the divested businesses.

Due to the obligation to provide manufacturing facilities for roofing products, inventory relating to finished goods of roofing products held was $426,000 at 2009 year end. The remaining inventory of $239,000 related to Alucobond products held as a deferred settlement arrangement under the Sale and Purchase Agreement dated 3 December 2008. Both these items have been realised during the year ending 30 June 2010.

The Trade and other debtors balance is retentions relating to contracts completed relating to the Alucobond divested business.

(d) Assets and liabilities and cash flows from divestments

Details of Assets and Liabilities disposed are as follows:

	2010 $000	2009 $000
Property plant and equipment	-	275
Inventory	-	1,032
Trade and other payables	-	-
Net assets disposed attributable to discontinued operations	-	1,307
Net consideration received or receivable:		
- Proceeds received	-	1,432
- Less cost of divestments	-	86
Net proceeds	-	1,346
Trading cashflow from discontinued operations is disclosed in Note 25		
Net gain on divestments	-	39
Less tax benefit on deductible expenditure	-	12
Net profit after tax of divestments	-	27

NOTES TO FINANCIAL STATEMENTS

6. DISCONTINUED OPERATIONS (continued)

The net profit after tax of divestments is included in the net profit from discontinued operations disclosed above.

7. EXPENDITURE INCLUDED IN NET PROFIT FOR THE YEAR

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

	NOTE	GROUP		PARENT	
		2010 $000	2009 $000	2010 $000	2009 $000
Remuneration of auditors:					
Audit of the financial statements by parent company auditor		**264**	299	**67**	69
Other services provided by parent company auditor (NZ IFRS, IT and internal assurance services and statutory audits performed for foreign subsidiaries)		**103**	88	**-**	-
Other auditors fees for the audit of the financial statements in foreign jurisdictions		**97**	156	**-**	-
Total remuneration of auditors		**464**	543	**67**	69
Employee benefits expense:					
Wages and salaries (including annual leave, long service and sick leave)		**39,024**	40,674	**643**	785
Termination benefits		**1,298**	550	**1,100**	-
Defined contribution expense		**712**	2,401	**-**	5
Total employee benefits expense		**41,034**	43,625	**1,743**	790
Depreciation and amortisation expenses:					
Depreciation of property, plant and equipment	11	**6,054**	6,117	**1**	1
Amortisation of intangible assets	12	**852**	736	**-**	-
Total depreciation and amortisation expense		**6,906**	6,853	**1**	1
Loss on disposal of property, plant and equipment		**220**	-	**1**	-
Restructuring expenses Restructuring expenses are reported as distribution expenses		**37**	503	**-**	-
Product development costs		**834**	742	**-**	-
Rentals and operating lease costs					
- Property, vehicles and plant & equipment		**4,719**	5,721	**38**	35
Foreign currency losses		**2,521**	182	**4**	-
Ineffective portion of cashflow hedges:					
- Interest rate swaps		**718**	150	**-**	-
- Foreign currency contracts		**105**	8	**-**	-
Total ineffective portion of cash flow hedges		**823**	158	**-**	-

8. 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	
	2010 $000	2009 $000	2010 $000	2009 $000
Cash and bank balances	**9,567**	6,853	**630**	3,078
Total cash and bank balances	**9,567**	6,853	**630**	3,078

9. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Trade receivables	**36,941**	29,401	**-**	-
Less allowance for doubtful debts	**816**	769	**-**	-
	36,125	28,632	**-**	-
GST/VAT receivable	**479**	307	**-**	-
Other	**2,708**	2,811	**131**	96
Total trade and other receivables	**39,312**	31,750	**131**	96

The average credit period for sales of goods is 62 days (2009: 64 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, $3.4 million representing 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 $7.9 million (2009: $7.3 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	
	2010 $000	2009 $000	2010 $000	2009 $000
01-30 days	**5,566**	5,293	**-**	-
31-60 days	**1,666**	1,107	**-**	-
61 days plus	**723**	843	**-**	-
Total past due trade receivables	**7,955**	7,243	**-**	-
Movement in the allowance for doubtful debts:				
Balance at the beginning of year	**769**	904	**-**	-
Impaired losses recognised	**218**	223	**-**	-
Amounts written off as uncollectable	**(76)**	(73)	**-**	-
Impairment losses reversed	**(59)**	(237)	**-**	-
Net foreign currency exchange differences	**(36)**	(48)	**-**	-
Balance at the end of year	**816**	769	**-**	-

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.

The impairment recognised 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.

10. INVENTORIES

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Raw materials at cost	**6,354**	7,235	**-**	-
Work in progress at cost	**3,066**	2,311	**-**	-
Finished goods at cost	**18,739**	25,483	**-**	-
Total inventories	**28,159**	35,029	**-**	-

Total inventories is net of $2.4 million (2009: $2.1 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.

11. PROPERTY, PLANT AND EQUIPMENT

GROUP	FREEHOLD LAND (AT COST) $000	FREEHOLD BUILDINGS (AT COST) $000	PLANT AND EQUIPMENT (AT COST) $000	FURNITURE, FITTINGS AND OTHER (AT COST) $000	TOTAL $000
Cost					
Balance 1 July 2008	182	1,728	49,705	3,665	55,280
Additions	-	-	5,408	1,370	6,778
Disposals	-	-	(1,803)	(405)	(2,208)
Disposals through businesses sold	-	-	(163)	(320)	(483)
Net foreign currency exchange differences	1	4	1,166	(426)	745
Balance 30 June 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**

NOTES TO FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP	NOTE	FREEHOLD LAND $000	FREEHOLD BUILDINGS $000	PLANT AND EQUIPMENT $000	FURNITURE, FITTINGS AND OTHER $000	TOTAL $000
Accumulated depreciation and impairment						
Balance 1 July 2008		-	209	9,061	2,842	12,112
Depreciation expense	7	-	32	5,441	644	6,117
Disposals		-	-	(719)	(101)	(820)
Disposals through businesses sold		-	-	(32)	(216)	(248)
Impairment expense		-	-	1,062	-	1,062
Net foreign currency exchange differences		-	13	(546)	(697)	(1,230)
Balance 30 June 2009		-	254	14,267	2,472	16,993
Depreciation expense	7	**-**	**45**	**5,536**	**473**	**6,054**
Disposals		**-**	**(58)**	**(2,477)**	**(366)**	**(2,901)**
Impairment expense		**-**	**-**	**-**	**-**	**-**
Net foreign currency exchange differences		**-**	**(2)**	**(940)**	**(212)**	**(1,154)**
Balance 30 June 2010			**239**	**16,386**	**2,367**	**18,992**
Carrying value						
As at 30 June 2009		183	1,478	40,046	1,412	43,119
As at 30 June 2010		**175**	**1,443**	**36,048**	**986**	**38,652**

Capital expenditure commitments are $313,000 (2009: $1,530,000).

PARENT	NOTE	FURNITURE, FITTINGS AND OTHER $000
Cost		
Balance 1 July 2008		33
Additions		1
Disposals		(16)
Balance 30 June 2009		18
Additions		**-**
Disposals		**(11)**
Balance 30 June 2010		**7**
Accumulated depreciation and impairment		
Balance 1 July 2008		32
Depreciation expense	7	1
Disposals		(16)
Balance 30 June 2009		17
Depreciation expense	7	**1**
Disposals		**(11)**
Balance 30 June 2010		**7**
Carrying value		
As at 30 June 2009		1
As at 30 June 2010		**-**

NOTES TO FINANCIAL STATEMENTS

12. GOODWILL AND INTANGIBLE ASSETS

(a) Reconciliation of carrying amounts at beginning and end of the period

	NOTE	GROUP GOODWILL $000	GROUP SOFTWARE $000	GROUP TOTAL $000	PARENT TOTAL $000
YEAR ENDING 30 JUNE 2010					
Balance 1 July 2009		**49,336**	**5,610**	**54,946**	-
Acquired		**-**	**163**	**163**	-
Amortisation	7	**-**	**(852)**	**(852)**	-
Net foreign currency differences		**(3,305)**	**(44)**	**(3,349)**	-
Balance 30 June 2010		**46,031**	**4,877**	**50,908**	-
Cost (gross carrying amount)		**46,031**	**7,527**	**53,558**	-
Accumulated impairment losses		**-**	**-**	**-**	-
Accumulated amortisation		**-**	**(2,650)**	**(2,650)**	-
Net carrying amount		**46,031**	**4,877**	**50,908**	-

	NOTE	GROUP GOODWILL $000	GROUP SOFTWARE $000	GROUP TOTAL $000	PARENT TOTAL $000
YEAR ENDING 30 JUNE 2009					
Balance 1 July 2008		47,254	6,217	53,471	-
					-
Deferred tax adjustment to fair value accounting		2,101	-	2,101	-
Reclassification		(159)	159	-	
Acquired		-	333	333	-
Disposals:					-
- Continuing operations		-	(26)	(26)	-
Amortisation	7	-	(736)	(736)	-
Net foreign currency differences		140	(337)	(197)	-
Balance 30 June 2009		49,336	5,610	54,946	-
Cost (gross carrying amount)		49,336	7,408	56,744	-
Accumulated impairment losses		-	-	-	-
Accumulated amortisation		-	(1,798)	(1,798)	-
Net carrying amount		49,336	5,610	54,946	-

The amortisation expensed above is included in the income statement under administration expenses.
All goodwill has arisen from business combinations.

(b) Goodwill disposals and impairment

Impairment

There has been no impairment of goodwill in the current year.

12. GOODWILL AND INTANGIBLE ASSETS (continued)

(c) 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:

CASH GENERATING UNIT	2010 $000	2009 $000
- Gulf Rubber / Tumedei / Skellerup Rubber Services	**31,991**	34,084
- Ambic Equipment	**7,515**	8,655
- Deks Industries	**4,344**	4,416
- Thorndon Rubber	**1,750**	1,750
- Stevens Filterite	**431**	431
Total goodwill	**46,031**	49,336

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 13.0 % (2009, 12.2 %) has been applied to discount future cashflows to their present value.

The Gulf Rubber/Tumedei/Skellerup Rubber Services Goodwill makes up 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 73.7 % for this cash generating unit.

The remaining cash generating units which hold 30.5 % of the Goodwill, collectively report their net present value of future cash flows above their carrying value by 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.

The global recession has been taken into account in determining future cash flow generations with any significant growth being tempered during the 2011 year where those businesses are operating in markets which are slow to recover back to normal trading conditions. For periods from 2012 onwards we have anticipated that normal trading conditions would prevail.

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 -2.9 % to +14.1 % 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

For the subsequent year, revenues have been held relatively constant to allow for the global markets to recover from the recession. Beyond this period we anticipate growth opportunities arising which will support a key objective defined in our strategic business plans.

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 2010, to reflect the higher 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.

12. GOODWILL AND INTANGIBLE ASSETS (continued)

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.

13. INVESTMENTS AND ADVANCES

	NOTE	GROUP		PARENT	
		2010 $000	2009 $000	2010 $000	2009 $000
Debenture note (secured)		**3,000**	3,000	-	-
Investment in subsidiaries	23	**-**	-	**46,633**	46,633
Advance to subsidiaries	23	**-**	-	**30,096**	17,102
Total investments and advances		**3,000**	3,000	**76,729**	63,735

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 two years. The debenture is due to mature on 29 June 2012. The interest rate applicable at balance date was 12.3 % per annum.

14. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Trade payables	**11,098**	9,784	-	-
Employee entitlements	**2,617**	2,284	-	83
Accident Compensation Commission partnership accrual	**269**	201	-	-
Sundry payables & accruals	**7,863**	7,034	**427**	114
Goods and services tax	**787**	592	**531**	488
Total trade and other payables	**22,634**	19,895	**958**	685

The average credit period on purchases of all goods and services represents an average of 40 days' credit (2009: 41 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.

14. TRADE AND OTHER PAYABLES (continued)

A stop loss limit of 250 % of the industry standard levy premium has been agreed with the Accident Compensation Commission 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 2010. There are no qualifications contained in the actuarial valuer's report. The value of the liability at 30 June 2010, which has been recognised on the Balance Sheet, is $131,000 (2009: $201,000).

There have been no changes to the assumptions applied, from the 2009 year, for determining this valuation.

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

15. PROVISIONS

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Provisions				
Employee entitlements	**5,791**	5,734	**10**	154
Warranties	**1,622**	1,643	**-**	-
Restructuring costs	**-**	477	**-**	-
Total provisions	**7,413**	7,854	**10**	154
Current	**6,273**	6,361	**10**	153
Non-current	**1,140**	1,493	**-**	1
Total provisions	**7,413**	7,854	**10**	154

GROUP	WARRANTIES $000	RESTRUCTURING COSTS $000
Balance 1 July 2008	1,371	1,273
Additional provisions recognised	260	503
Reductions arising from payments / sacrifices of economic benefits	(63)	(1,259)
Reductions arising from remeasurement or settlement without cost	70	-
Net foreign currency exchange differences	5	(40)
Balance 30 June 2010	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**	**-**

(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.

16. INTEREST BEARING LOANS AND BORROWINGS

		NOTE	GROUP EFFECTIVE INTEREST RATE	GROUP CARRYING AMOUNT	PARENT CARRYING AMOUNT
Balance 30 June 2010					
Current liabilities					
Secured					
Obligations under finance leases		24	**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		24	**5.16%**	**263**	-
Total non-current liabilities				**36,380**	-
Balance 30 June 2009					
Current liabilities					
Secured					
Obligations under finance leases		24	8.06 %	246	-
Total current liabilities				246	-
Non-current liabilities					
Secured					
- at amortised cost					
BANK LOANS					
NZD Term Loans	NZD 12,500		3.18 %	12,500	12,500
AUD Term Loans	AUD 18,520		3.54 %	23,138	-
GBP Term Loan	GBP 3,900		1.74 %	9,944	-
USD Term Loan	USD 5,000		0.96 %	7,746	-
EUR Term Loan	EUR 8,400		1.46 %	18,269	-
				71,597	12,500
Obligations under finance leases		24	8.06 %	289	-
Total non-current liabilities				71,886	12,500

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 21.

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 cash, current and non-current assets are pledged as security to the bank to secure the above term loans.

17. CONTRIBUTED EQUITY

	GROUP & PARENT NUMBER OF SHARES	GROUP & PARENT VALUE $000
Balance 30 June 2010		
Balance at beginning of year	**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 at end of year	**191,147,928**	**68,198**
Balance 30 June 2009		
Balance at beginning of year	132,084,729	44,254
Ordinary shares issued under the dividend reinvestment plan relating to dividends paid on 24 October 2008 and 30 April 2009	2,512,495	1,771
Transaction costs	-	-
Balance at end of year	134,597,224	46,025

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 19.

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 Stock 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.

18. RESERVES

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Reserve balances					
Cash flow hedge reserve		**(307)**	(2,740)	-	(122)
Foreign currency translation reserve		**(5,007)**	(1,666)	-	-
Total reserves		**(5,314)**	(4,406)	-	(122)

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Cash flow hedge reserve					
Balance at beginning of year		**(2,740)**	(147)	**(122)**	301
Gain/(loss) recognised on cash flow hedges:					
- Forward foreign exchange contracts		**1,288**	240	**-**	-
- Interest rate swaps		**2,173**	(3,945)	**175**	(605)
- Income tax related to gains /(losses) recognised in other comprehensive income	5	**(1,028)**	1,112	**(53)**	182
Movement for the year		**2,433**	(2,593)	**122**	(423)
Balance at end of year		**(307)**	(2,740)	**-**	(122)
Foreign currency translation reserve					
Balance at beginning of the year		**(1,666)**	(4,204)	-	-
Gain/(loss) on translation of net investments		**(2,454)**	2,416	-	-
Gain/(loss) on translation of foreign operations		**(1,181)**	373	-	-
Income tax related to gains/(losses) recognised in other comprehensive income	5	**294**	(251)	-	-
Movement for the year		**(3,341)**	2,538	-	-
Balance at end of the year		**(5,007)**	(1,666)	-	-

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.

19. RETAINED EARNINGS

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Balance at beginning of year	**29,811**	31,895	**7,665**	15,061
Net profit for the year	**11,958**	9,175	**4,468**	3,875
Payment of dividends	**(3,763)**	(11,259)	**(3,769)**	(11,271)
Balance at end of year	**38,006**	29,811	**8,364**	7,665

During the reported period a dividend of 2 cents per share was paid on 31 March 2010. All dividends paid were fully imputed with imputation tax credits totalling $1,846,840.

The Group dividend for 2010 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 all the dividends paid during the current reporting period. The value of the shares issued are noted in the table below.

	2010						2009	
DIVIDENDS	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
Fully paid ordinary shares								
- Final – prior year	-	-	-	-	-	-	6.00	7,925
- Interim – current year	**2.00**	**3,769**	**1,847**	**2,711,814**	**1.4%**	**1,438**	2.50	3,346
	2.00	**3,769**	**1,847**	**2,711,814**	**1.4%**	**1,438**	8.50	11,271

20. EARNINGS PER SHARE

BASIC AND DILUTED	GROUP 2010 CENTS PER SHARE	GROUP 2009 CENTS PER SHARE
Earnings per share:		
From continuing operations	**6.807**	6.743
From discontinued operations	**-**	0.136
Total earnings per share	**6.807**	6.879
The net tangible asset per share	**28.75**	14.25

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

	GROUP 2010 CENTS PER SHARE	GROUP 2009 CENTS PER SHARE
Net profit for the year	**11,958**	9,175
Less profit for the year from discontinued operations used in the calculation of earnings per share from discontinued operations	**-**	182
Earnings used in the calculation of earnings per share from continuing operations	**11,958**	8,993
Weighted average number of ordinary shares for the purposes of earnings per share	**175,654,345**	133,369,449

21. 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

GROUP	CASH & BANK BALANCES $000	TRADE & OTHER RECEIVABLES $000	DERIVATIVES $000	DEBENTURE NOTE $000	TOTAL FINANCIAL ASSETS $000
2010					
Fair value through profit and loss	**9,567**	**-**	**315**	**-**	**9,882**
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**
2009					
Fair value through profit and loss	6,853	-	415	-	7,268
Loans and Receivables	-	31,750	-	-	31,750
Held to maturity	-	-	-	3,000	3,000
Total financial assets	6,853	31,750	415	3,000	42,018
PARENT					
2010					
Fair value through profit and loss	**630**	**-**	**-**	**-**	**630**
Loans and Receivables	**-**	**131**	**-**	**-**	**131**
Total financial assets	**630**	**131**	**-**	**-**	**761**
2009					
Fair value through profit and loss	3,078	-	-	-	3,078
Loans and Receivables	-	96	-	-	96
Total financial assets	3,078	96	-	-	3,174

GROUP	TRADE & OTHER PAYABLES $000	DERIVATIVES $000	BORROWINGS $000	TOTAL FINANCIAL LIABILITIES $000
2010				
Fair value through profit and loss	**-**	**1,371**	**-**	**1,371**
Other financial liabilities	**22,634**	**-**	**36,495**	**59,129**
Total financial liabilities	**22,634**	**1,371**	**36,495**	**60,500**
2009				
Fair value through profit and loss	-	4,580	-	4,580
Other financial liabilities	19,895	-	72,132	92,027
Total financial liabilities	19,895	4,580	72,132	96,607
PARENT				
2010				
Fair value through profit and loss	**-**	**-**	**-**	**-**
Other financial liabilities	**958**	**-**	**-**	**958**
Total financial liabilities	**958**	**-**	**-**	**958**
2009				
Fair value through profit and loss	-	175	-	175
Other financial liabilities	685	-	12,500	13,185
Total financial liabilities	685	175	12,500	13,360

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

21. 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 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Current assets				
- Forward currency contract – cash flow hedge	**275**	222	**-**	-
Non-current assets				
- Forward currency contract – cash flow hedge	**40**	193	**-**	-
Total assets	**315**	415	**-**	-
Current liabilities				
- Forward currency contracts – cash flow hedge	**10**	1,385	**-**	-
- Forward currency contract – held for trading	**105**	8	**-**	-
- Interest rate swaps – cash flow hedge	**480**	2,009	**-**	175
- Interest rate swaps – held for trading	**417**	-	**-**	-
Total current liabilities	**1,012**	3,402	**-**	175
Non-current liabilities				
- Interest rate swaps – cash flow hedge	**359**	1,178	**-**	-
Total liabilities	**1,371**	4,580	**-**	175

(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 2010 NZ$000	NOTIONAL AMOUNT 2009 NZ$000	AVERAGE EXCHANGE RATES 2010	AVERAGE EXCHANGE RATES 2009
BUY USD / SELL NZD Maturing N/A (2009: 1-16 months)	-	16,413	**-**	0.6093
BUY NZD / SELL EUR Maturing 1-15 months (2009: 1-3 months)	**3,526**	1,178	**0.5105**	0.4752
BUY EUR / SELL AUD Maturing 1-12 months (2009: N/A)	**1,198**	-	**0.6662**	-
BUY AUD / SELL USD Maturing 1-14 months (2009: 1-2 months)	**4,005**	666	**0.8262**	0.7847
BUY GBP / SELL EUR Maturing 1-15 months (2009: N/A)	**873**	-	**1.1715**	-

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.

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

BUY USD / SELL NZD Maturing 1-8 months (2009: N/A)	**5,910**	-	**0.6768**	-
BUY AUD / SELL NZD Maturing N/A (2009: 1-3 months)	**-**	200	**-**	0.7742
BUY GBP / SELL EUR Maturing N/A (2009: 1-12 months)	**-**	957	**-**	1.1765

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

21. FINANCIAL INSTRUMENTS (continued)

(ii) interest rate swaps - cashflow hedges

Interest bearing loans of the Group bear an average variable interest rate of 5.23% (2009: 5.91%). 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 52% (2009: 94%) of the principal outstanding. The fixed interest rates range between 4.25% and 7.39% (2009: 4.25% and 7.39%).

At 30 June 2010, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

	MATURITY DATE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
		NZD	NZD	**NZD**	NZD
NZD Swap 5.58%	30-Dec-09	**-**	12,500	**-**	12,500
		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**	5,000	**-**	-
		EUR	EUR	**EUR**	EUR
EUR Swap 4.27%	30-Jun-10	**-**	8,000	**-**	-
		GBP	GBP	**GBP**	GBP
GBP Swap 5.85%	4-Oct-10	**3,900**	3,900	**-**	-
		USD	USD	**USD**	USD
USD Swap 4.25%	28-Feb-11	**5,000**	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. The ineffective amount of $717,704 (2009: $150,785) has been charged directly to the Income Statement.

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 2010, 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 and funds derived from the October 2009 rights issue has resulted in the borrowing held in Great British Pounds and United States Dollars being repaid during the year.

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Australian Dollar	**AUD 15,520**	AUD 15,520	**-**	-
Great British Pound	**-**	GBP 3,900	**-**	-
Euro	**EUR 8,400**	EUR 8,400	**-**	-
United States Dollar	**-**	USD 5,000	**-**	-

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.

21. FINANCIAL INSTRUMENTS (continued)

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:

	2010			2009		
	CURRENT ASSETS $000	CURRENT LIABILITIES $000	NET MONETARY ASSETS $000	CURRENT ASSETS $000	CURRENT LIABILITIES $000	NET MONETARY ASSETS $000
USD	**2,828**	**1,775**	**996**	2,400	1,479	921
AUD	**11,972**	**4,443**	**7,529**	8,762	3,647	5,115
CNY	**15,304**	**2,638**	**12,666**	12,579	3,477	9,102
GBP	**1,224**	**169**	**1,055**	675	539	136
EUR	**2,245**	**1,143**	**1,102**	1,419	806	613
	NZD	**NZD**	**NZD**	NZD	NZD	NZD
NZD equivalent	**28,772**	**11,013**	**17,676**	21,289	9,221	12,068

22. 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 exposure to credit risk and how this is managed is explained in Note 9.

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 16.

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	
	2010 $000	2009 $000	2010 $000	2009 $000
Financial assets				
- Cash and cash equivalents	**9,567**	6,853	**630**	3,078
Financial liabilities				
- Bank Loans	**17,085**	4,643	**-**	-
Net exposure	**(7,518)**	2,210	**630**	3,078

Interest rate swap contracts in Note 21 (ii), with a fair value of $1,256,000, (2009: $3,187,000), are exposed to fair value movements if interest rates change. With the maturity of the EUR $8.0M interest rate swap on 30 June 2010, a higher level of debt is currently exposed to market movements, compared to the previous year.

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 2010, the Group held interest rate swaps which covered 52% of the variable interest rate debt.

22. 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)	
GROUP	2010 $000	2009 $000	2010 $000	2009 $000
+1% (100 basis points)	**(10)**	(33)	**359**	609
-0.5% (50 basis points)	**5**	16	**(180)**	(305)
PARENT				
+1% (100 basis points)	**-**	-	**-**	51
-0.5% (50 basis points)	**-**	-	**-**	(25)

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 2009.

(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 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 months 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.

Foreign Currency Net Monetary Assets

As at 30 June 2010 the Group has the following net monetary assets in foreign currency values which will revalue either through the income statement or statement of comprehensive income:

	CASH & CASH EQUIVALENTS $000	RECEIVABLES $000	PAYABLES $000	NET MONETARY ASSETS $000
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**
30 June 2009				
USD	343	5,361	3,058	2,646
AUD	134	670	78	726
GBP	102	343	113	332
EUR	35	839	213	661
NZD	-	63	238	(175)

22. 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 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Financial assets				
- Cash and cash equivalents	**3,576**	1,035	**-**	-
- Trade and other receivables	**14,805**	11,904	**27**	33
	18,381	12,939	**27**	33
Financial liabilities				
- Trade and other payables	**6,235**	5,824	**-**	-
Net exposure	**12,146**	7,115	**27**	33

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:

GROUP	NET PROFIT AFTER TAX HIGHER/(LOWER) 2010 $000	NET PROFIT AFTER TAX HIGHER/(LOWER) 2009 $000	OTHER COMPREHENSIVE INCOME HIGHER/(LOWER) 2010 $000	OTHER COMPREHENSIVE INCOME HIGHER/(LOWER) 2009 $000
Foreign currency rates				
- Increase +10 %	**(781)**	(442)	**(781)**	(442)
- Decrease -5 %	**452**	256	**452**	256
PARENT				
Foreign currency rates				
- Increase +10 %	**(2)**	(3)	**(2)**	(3)
- Decrease -5 %	**1**	2	**1**	2

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 party who hold the debenture note and cash are considered a low credit risk. Refer to Note 13.

22. 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 of receipts and payments. There is a further analysis of future operating lease commitments under Note 24 which are not included in this analysis.

BALANCE 30 JUNE 2010 GROUP	<6 MONTHS $000	6-12 MONTHS $000	1-5 YEARS $000	>5 YEARS $000	TOTAL $000
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)**

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 2009 GROUP	<6 MONTHS $000	6-12 MONTHS $000	1-5 YEARS $000	>5 YEARS $000	TOTAL $000
Financial assets					
Cash and cash equivalents	6,853	-	-	-	6,853
Trade and other receivables	30,536	1,214	-	-	31,750
Derivatives	120	102	193	-	415
Debenture note	184	184	3,737	-	4,105
	37,693	1,500	3,930	-	43,123
Financial liabilities					
Trade and other payables	18,712	1,161	-	-	19,873
Interest bearing loans	2,092	2,092	72,235	-	76,419
Derivatives	2,485	917	1,178	-	4,580
	23,289	4,170	73,413	-	100,872
Net total	14,404	(2,670)	(69,483)	-	(57,749)

22. 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 21 (ii) and have a fair value of $1,256,000 (2009, $3,187,000).

NOTES TO FINANCIAL STATEMENTS

23. RELATED PARTIES

The consolidated financial statements incorporate the following significant companies :-

a) Subsidiary Companies	Country of Incorporation	Holding 2010	Holding 2009	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. During the 2010 year the assets have been transferred to Skellerup Industries Limited and future vacuum pump manufacturing and distribution will be through this entity.

*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.

23. RELATED PARTIES (continued)

(b) Transactions with related parties

	PARENT 2010 $000	PARENT 2009 $000
Advances to subsidiaries		
- Balance at beginning of year	**17,102**	37,553
- Plus funds advanced to subsidiaries	**12,994**	-
- Less funds repaid by subsidiaries	**-**	20,451
Balance at end of year	**30,096**	17,102
Investment in subsidiaries	**46,633**	46,633
Investment and advances	**76,729**	63,735

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 2010 $000	PARENT 2009 $000
Management fees	**4,447**	4,034
Dividends	**4,300**	4,200
Total management fees and dividends	**8,747**	8,234

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 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Short term benefits:				
- Directors fees	**278**	315	**278**	315
- senior management	**2,599**	2,710	**757**	977
- termination benefits	**1,100**	-	**1,100**	-

24. 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 properties have a life ranging between 1 and 10 years. Some property leases have rights of renewal.

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Payments recognised as an expense				
- Minimum lease payments	**4,719**	5,721	**38**	35
Non-cancellable operating lease commitments				
- No later than 1 year	**4,715**	5,103	**35**	35
- Later than 1 year and no later than 5 years	**9,390**	7,333	**-**	-
- Later than 5 years	**2,363**	-	**-**	-
Total non-cancellable operating lease commitments	**16,468**	12,436	**35**	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 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Minimum future lease payments	**472**	575	**-**	-
Present value of future lease payments	**226**	535	**-**	-
Reported as:				
- Current liability	**115**	246	**-**	-
- Term liability	**263**	289	**-**	-
Property, plant and equipment under finance leases	**378**	535	**-**	-

Group as lessor

The Group subleases surplus areas of leased properties.

Sublease arrangements range from short terms to 2 year periods.

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Rentals receivable recognised as Revenue	**249**	227	**-**	-

Future rental receivable under lease contract terms is $100,907 (2009: $113,826).

25. 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.

Unallocated expenditure includes termination benefits paid to the Managing Director, FX losses relating to non trading derivatives, and defered tax adjustments due to changes in tax regulation. 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 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 and 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**

25. SEGMENT INFORMATION (continued)

BUSINESS SEGMENT ANALYSIS FOR THE YEAR ENDED 30 JUNE 2009	CONTINUING OPERATIONS				DISCONTINUED OPERATIONS	
	AGRI	INDUSTRIAL	CORPORATE	SUB TOTAL	INDUSTRIAL	TOTAL
Revenue						
Sales to customers	69,853	110,777	227	180,857	3,227	184,084
Total revenue	69,853	110,777	227	180,857	3,227	184,084
Result						
Segment ebit	15,479	6,195	(2,627)	19,047	266	19,313
Less unallocated expenses				-	-	-
Profit before tax and finance costs				19,047	266	19,313
Less finance expenses				5,873	-	5,873
Profit before tax				13,174	266	13,440
Less taxation				4,181	84	4,265
Net profit after tax				8,993	182	9,175
Assets & liabilities						
Segment assets	50,506	107,235	19,665	177,406	706	178,112
Segment liabilities	6,126	20,180	80,376	106,682	-	106,682
Net assets	44,380	87,055	(60,711)	70,724	706	71,430
Other segment information						
Capital expenditure	2,171	4,476	131	6,778	-	6,778
Impairment losses	-	1,062	-	1,062	-	1,062
Cash flow						
Segment EBIT	15,479	6,195	(2,627)	19,047	266	19,313
Plus depreciation and amortisation	2,835	3,627	354	6,816	37	6,853
Movement in working capital	854	2,484	714	4,052	2	4,054
Segment cash flow	19,168	12,306	(1,559)	29,915	305	30,220
Finance expenses and tax				(5,010)	(84)	(5,094)
Unallocated operating cash flows				(2,173)	-	(2,173)
Net cash flow from operating activities				22,732	221	22,953

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 23.6 % (2009, 23.5 %) of the Agri segment revenue.

For the Industrial segment, the three largest customers account for 11.7 % (2009, 10.2 %) of the Industrial segment revenue.

Inter Segment Revenue

Inter segment transfer prices are set on an arm's length basis. Such inter segment revenue for the year was $2.292 million (2009, $3.97 million) and relates to a range of Vacuum Pumps which the Industrial segment manufactures and transfers to the Agri segment to fulfil the sales demand for Agri customers.

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

25. SEGMENT INFORMATION (continued)

Segment Revenue Reconciliation
(a) Inter/Intra Segment Revenue

YEAR ENDING 30 JUNE 2010	AGRI $000	INDUSTRIAL $000	CORPORATE $000	ELIM. $000	DISCONTINUED OPERATIONS	TOTAL $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**

YEAR ENDING 30 JUNE 2009	AGRI $000	INDUSTRIAL $000	CORPORATE $000	ELIM. $000	DISCONTINUED OPERATIONS	TOTAL $000
Gross revenue	84,616	132,907	-	(36,893)	3,227	183,857
Less inter segment revenue	14,763	18,160	-	32,923	-	-
Less intra segment revenue	-	3,970	-	3,970	-	-
Other revenue	-	-	227	-	-	227
Total revenue	69,853	110,777	227	-	3,227	184,084

(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 stronger compared to the NZD during the 2009 year.

CONTINUING OPERATIONS	2010 $000	2009 $000
New Zealand	**41,628**	42,637
Australia	**58,894**	54,705
North America	**36,709**	39,922
Europe	**20,981**	24,298
U.K. & Ireland	**12,442**	13,014
Asia	**6,450**	4,747
Other	**3,615**	1,534
Total revenue	**180,719**	180,857

NOTES TO FINANCIAL STATEMENTS

26. CASH FLOW RECONCILIATION

Reconciliation of net profit after tax to net cashflow from operations

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Net profit after tax		**11,958**	9,175	**4,468**	3,875
Adjustments for:					
- Depreciation	11	**6,054**	6,117	**1**	1
- Amortisation	12	**852**	736	**-**	-
- Impaired assets		**-**	1,062	**-**	-
- Foreign currency movements on translating foreign assets and liabilities		**494**	623	**-**	-
- Bad debts written off		**39**	248	**-**	-
- Ineffective portion of cash flow hedges charged to Income Statement	7	**823**	158	**-**	-
- Loss on sale of assets	7	**220**	1,040	**-**	-
- Net movement in working capital		**3,512**	3,794	**173**	608
Net cash inflow from operating activities		**23,952**	22,953	**4,642**	4,484

27. CONTINGENT LIABILITIES

As at 30 June the Group provided the following guarantees:

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Bank guarantees	**75**	75	**75**	75
Letters of credit	**-**	18	**-**	-
Total contingent liabilities	**75**	93	**75**	75

The Bank Guarantee is provided to the NZ Stock Exchange. The Letter of Credit documents are provided to foreign suppliers, under our Group banking facility, to guarantee future payment obligations for purchases made under normal terms and conditions. The fair value of the guarantees is negligible.

28. SIGNIFICANT EVENTS AFTER BALANCE DATE

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

OTHER ANNUAL REPORT DISCLOSURES

DIRECTORS

Directors holding office during the year

Sir Selwyn Cushing	(Non-Executive Director)	
Donald Stewart	(Executive Director)	resigned 30 June 2010
Elizabeth Coutts	(Independent Director)	
Graham Fraser	(Independent Director)	resigned 28 October 2009
David Mair	(Independent Director)	
John Thompson	(Non-Executive Director)	

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 2010 were as follows:

	GROUP AND PARENT	
	2010 $000	2009 $000
Sir Selwyn Cushing	**90**	90
Elizabeth Coutts	**60**	60
Graham Fraser	**23**	55
David Mair	**55**	55
John Thompson	**55**	55
	283	315
Donald Stewart (Chief Executive Officer and Managing Director)		
Salary	**500**	500
Performance Bonus (relates to 2008 year)	**-**	300
Termination benefits and outstanding leave entitlements	**1,180**	-

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	15	$180K-$189K	5	$280K-$289K	1
$110K-$119K	6	$190K-$199K	4	$310K-$319K	2
$120K-$129K	6	$200K-$209K	5	$340K-$349K	1
$130K-$139K	6	$210K-$219K	1	$380K-$389K	1
$140K-$149K	8	$220K-$229K	1	$410K-$419K	1
$150K-$159K	4	$230K-$239K	1	$480K-$489K	1
$160K-$169K	5	$240K-$249K	1	$1,680K-$1,689K	1
$170K-$179K	3	$270K-$279K	1		

OTHER ANNUAL REPORT DISCLOSURES (continued)

STATEMENT OF DIRECTORS' SHAREHOLDINGS

Directors held the following equity securities in the Company

	NON BENEFICIAL INTEREST 30 JUNE 2010	HELD BENEFICIALLY 30 JUNE 2010	HELD BY ASSOCIATED PERSONS 30 JUNE 2010
Sir Selwyn Cushing	1,137,500		12,173,826
Elizabeth Coutts			557,542
Donald Stewart		673,248	317,187
David Mair			2,427,506
John Thompson			13,697,947

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

		NUMBER OF SHARES ACQUIRED	CLASS OF SHARES	CONSIDERATION PAID	DATE OF TRANSACTION
Sir Selwyn Cushing	(rights issue)	3,478,236	Ordinary	1,391,294	8/10/2009
Elizabeth Coutts	(rights issue)	205,834	Ordinary	82,337	8/10/2009
		20,260	Ordinary	10,746	31/03/2010
Donald Stewart	(rights issue)	272,698	Ordinary	109,079	8/10/2009
		35,991	Ordinary	19,089	31/03/2010
David Mair	(rights issue)	693,573	Ordinary	277,429	8/10/2009
John Thompson	(rights issue)	4,762,778	Ordinary	1,905,111	8/10/2009

OTHER ANNUAL REPORT DISCLOSURES (continued)

SHAREHOLDER INFORMATION

Substantial Security Holders

Pursuant to Section 26 of the Securities Amendment Act 1988, the substantial security holders as at 1 September 2010 were as follows:

AMP Capital Investors Limited	37,871,739	19.813 %
Balmain Trust and related entities	13,697,947	7.166 %
Sir Selwyn Cushing	12,173,826	6.369 %
Accident Compensation Corporation	10,462,552	5.474 %

Principal Shareholders

The names and holdings of the twenty largest registered shareholders as at 1 September 2010

1	AMP Investment Strategic Equity Growth Fund	16,498,286	8.631 %
2	NZGT Nominees Limited - AIF Equity Fund	11,972,182	6.263 %
3	H & G Limited	10,616,169	5.554 %
4	Accident Compensation Corporation	10,462,552	5.474 %
5	Investment Custodial Services Limited (A/C 990018567)	9,399,947	4.918 %
6	N Z Superannuation Nominees Limited	8,485,502	4.439 %
7	Investment Custodial Services Limited (A/C 9900 22598)	4,165,000	2.179 %
8	NZ Guardian Trust Investment Nominees Limited	3,910,559	2.046 %
9	S K Shares Limited	3,877,486	2.029 %
10	Asteron Life Limited	3,771,233	1.973 %
11	Maxima Investments Limited	2,530,000	1.324 %
12	D W Mair & J G Phipps	2,427,506	1.270 %
13	TEA Custodians Limited	2,363,210	1.236 %
14	Custodial Services Limited	2,335,143	1.222 %
15	Forsyth Barr Custodians Limited	1,564,393	0.818 %
16	Citibank Nominees (NZ) Limited	1,462,858	0.765 %
17	Seajay Securities Limited	1,457,642	0.763 %
18	Investment Custodial Services Limited	1,258,203	0.658 %
19	PGG Wrightson Employee Benefits Plan Limited	1,137,500	0.595 %
20	AMP Custodians Services Limited	931,398	0.487 %
	Total Principal Shareholders	100,626,769	52.643 %
	Total Shares on issue	**191,147,928**	

Distribution of Shareholding as at 1 September 2010

SIZE OF SHAREHOLDING	TOTAL SHARES HELD	%
1 - 4,999	4,488,857	2.35 %
5,000 - 9,999	8,798,677	4.60 %
10,000 - 49,999	35,818,392	18.74 %
50,000 - 99,999	13,015,218	6.81 %
100,000 - 499,999	22,252,053	11.64 %
500,000 - 999,999	7,061,359	3.69 %
1,000,000 and over	99,713,372	52.17 %
Total shares on issue	**191,147,928**	**100.00%**

NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual Meeting of Shareholders of Skellerup Holdings Limited will be held at:

Metropolitan Stand
Addington Raceway
Twigger Street
Christchurch.

On Wednesday, 27 October 2010 at 2.30 p.m.

BUSINESS

1. To receive and consider the annual report, including the financial statements for the year ended 30 June 2010 and the report of the auditors thereon.
2. To re-elect two directors.
   Each of Sir Selwyn Cushing and Mrs Elizabeth Coutts has chosen to retire and, being eligible, offer themselves for re-election.
3. To authorise the directors to fix the remuneration of the auditor for the ensuing year.

PROXIES

Any shareholder who is entitled to attend and vote at the meeting may instead appoint a proxy to attend and vote on their behalf.

If you wish to appoint a proxy please complete the enclosed proxy form and mail to:

Computershare Investor Services Limited
Private Bag 92119
AUCKLAND 1142

so as to be received not less than 48 hours before the time of holding the meeting.

NOTE

Tea and coffee will be served at the conclusion of the meeting.

For and on behalf of the Board

Jim Greenwood
Company Secretary

Auckland
24 September 2010

CORPORATE INFORMATION

DIRECTORS

Sir Selwyn Cushing, KNZM, CMG
CHAIRMAN
E.M. Coutts, B.MS, C.A.
D.W. Mair, B.E., M.B.A.
J.C. Thompson

MANAGEMENT

D.W. Mair, B.E., M.B.A.
ACTING CHIEF EXECUTIVE
G.P. Keogh, C.A.
CHIEF FINANCIAL OFFICER
J.H. Greenwood, B.Com F.C.A.
COMPANY SECRETARY

REGISTERED OFFICE

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Email info@skellerupholdings.co.nz
Website www.skellerupholdings.co.nz

LEGAL ADVISORS

Chapman Tripp
23-29 Albert Street
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New Zealand

BANKERS

ANZ National Limited
23-29 Albert Street
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AUDITORS

Ernst & Young
41 Shortland Street
Auckland
New Zealand

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