ANNUAL REPORT 07

SKELLERUP
HOLDINGS
LIMITED

SKELLERUP

A YEAR IN FOCUS

The Skellerup Group of companies develops, markets, and distributes technical polymer products for a variety of specialist industrial and agricultural applications. Founded 97 years ago, today Skellerup is a global company headquartered in New Zealand, with operations in Asia, Europe, the United States and Australasia.

CONTENTS

HIGHLIGHTS

OPERATING REVENUE

$194 MILLION

SURPLUS AFTER TAX (BEFORE ABNORMALS)

$9 MILLION

INDUSTRIAL DIVISION

71% OF TOTAL REVENUE

EXPORT/OFFSHORE

62% OF TOTAL REVENUE

- Continued narrowing of strategic focus on technical polymer products
- International manufacturing and distribution networks expanding steadily
- Recent significant acquisitions build strength in technical polymer intelligence and capacity
- Restructuring costs of $17.9m to implement strategic focus
- Continued strengthening of NZ Dollar major impact on Operating Surplus

FINANCIAL RESULTS SUMMARY

YEAR TO 30 JUNE NZ$	2007 $000'S	2006 $000'S	% CHANGE
Operating Revenue	193,870	159,394	21.6%
EBITDA (before abnormals)	27,738	31,769	-12.7%
EBIT (before abnormals)	20,439	26,227	-22.1%
Surplus before tax (before abnormals)	13,590	21,200	-37.1%
Taxation (including deferred tax adjustment)	(4,961)	7,843	–
Surplus after tax (before abnormals and currency impact)	14,007	13,357	4.1%
Surplus after tax (before abnormals)	9,204	13,357	-31.1%
Surplus after tax	637	13,357	–
Total Assets	203,431	172,648	17.8%
Total Liabilities	166,146	123,635	34.4%
Net Assets	37,285	49,013	-23.9%
Earnings per share	0.60	12.77	–
Dividend per share (full year)	3.0c	8.0c	–

THE SHAPE OF THINGS TO COME

The challenges we have faced in the 2007 financial year have sharpened our focus on shaping our business for the future.

Although the group reported a sound increase in revenue of 21.6 percent, the continued strength of the New Zealand Dollar together with slower trading conditions in some areas had the combined effect of reducing Net Profit after Tax (NPAT)(before abnormals) to $9.2 million, a 31.1 percent decrease on the previous year.

STRATEGIC DIRECTION

Our acquisition in the 2006 year of Gulf Rubber, when combined with Deks and Ultralon, has provided us with an excellent platform for the manufacture and distribution of industrial technical polymer products going forward – in support of the decision for the Group to specialize as a global technical polymers (mostly rubber) company.

We have added to this platform this year through the purchase of Tumedei, an Italian-based manufacturer and distributor of industrial technical rubber products. This change in focus is supported by Skellerup's enduring reputation as a manufacturer and distributor of high quality technical rubber products for the global Dairy Industry.

As part of the review process, we have taken time to identify the areas in which the group has greatest competitive advantage. In particular, we recognise that in the group we collectively hold a wealth of expertise in technical polymer development and production, which can be used for the benefit of those businesses with demanding, and similar, production technologies.

We have also identified that the group now holds a powerful advantage in its ability to maximise access to global distribution networks and low-cost manufacturing intelligence.

For the future, the focus is now on these core strengths, which we believe will build a stronger presence in the larger, higher-growth segments within the technical rubber markets. This may result in the sale of some business units that – despite being sound operators in their fields – are not central to our strategy in developing competence and global distribution in technical polymers.

We are looking to increase outsourcing of manufacturing, to boost our global competitive advantage. This will require a significant restructuring of our Christchurch Industrial manufacturing facility.

The impact of the decision to restructure is an abnormal charge against this year's Operating Surplus before tax of $17.9 million, resulting in a Net Operating loss before tax of $4.3 million. After taking into account a deferred tax credit of $8.3m – arising from the recognition of asset depreciation and other timing differences (resulting in a net tax credit for the year of $4.9 million), – NPAT for the year is $0.6 million.

The abnormal charge of $17.9 million includes $12.7 million in non-cash asset writedowns.

With the additions of Gulf Rubber and Tumedei to the group, Skellerup is now building complementary technical expertise, distribution networks within target markets, and increasing access to low-cost manufacturing facilities. Our challenge is now to organise our capacity in those areas to provide the greatest leverage – to do what we do in the best and most efficient manner possible across the group.

We have recognised that, while our capability for production has always been a strength, competitive advantage in our industry in tomorrow's world will be secured by organisations that think creatively (and ahead of the competition), and maximise internal synergies to make best use of the available resources.

"For the future, the focus is now on these core strengths, which we believe will build a stronger presence in the larger, higher-growth segments within the technical rubber markets."

KEITH SMITH CHAIRMAN

We will be looking to strengthen our niche position by divesting businesses whose potential contribution to our target positioning is limited; and at the same time making further acquisitions that will help us to achieve our goal of global leadership in technical polymer production and distribution.

BOARD AND MANAGEMENT

We welcomed David Mair to our Board in November 2006. David brings sound experience in supply chain management throughout the Asia Pacific region and is a renowned expert on business efficiency improvement methods.

Leigh Davis, who has been a Director since 2002, has advised that he will not be seeking re-election to the Board at the upcoming Annual Meeting. I would like to thank Leigh for the sound contribution he has made to the Company over the past five years and wish him well for the future.

With Leigh's retirement from the Board, your directors remain mindful of the need to maintain an appropriate skill mix as the company adjusts and develops to meet the changing operating environment. It is expected that further Board appointments will be made over the next few months.

We recently accepted with regret the resignation of our Chief Operating Officer Mike McKessar from our Management Team. As a result, senior managers Ian Borley and Scott Thompson (Industrial Division), together with Peter Jensen (Agri division), now report directly to the Managing Director.

The group has a strong management structure complemented by a supportive Board and a loyal and dedicated global staff team. We continue to be proud of the achievements and adaptability of the Skellerup 'family' in an environment which provides new challenges constantly.

DIVIDEND

Given that there was a dividend of 3 cents per share paid on 26 April 2007, the Board has determined that there will be no final dividend declared for the current financial year. This recognises that the group is currently undergoing a refocusing process that involves significant restructuring costs; and as a consequence, it is prudent to ensure that adequate resources are available to support these initiatives.

The Board expects to resume dividend payments during the 2008 financial year.

LOOKING FORWARD

The changes required to optimise Skellerup's platform for future growth will continue into the 2008 year. In particular, we will be refining our focus in the areas where the group has the greatest opportunity to build global strength – providing technical polymer products to customers world-wide, but especially in Australasia, Europe, the United States and Asia.

We will continue to identify locations and businesses that can offer low-cost manufacture; specialist expertise in technical polymer production that complements our existing capabilities; and entry into markets where these products are in greatest demand.

We aim to focus on what we do best; and channel our efforts firmly into excelling in those areas. As the shape of our future operations becomes clearer, we aim to be well placed to be a key global supplier of technical polymer products to targeted markets.

KEITH SMITH CHAIRMAN

SHAPING UP

DONALD STEWART MANAGING DIRECTOR

"With the Tumedei acquisition completed and some re-organisation already undertaken to make best use of the synergies between Gulf and Tumedei, the group is well positioned for growth."

Revenues for the Skellerup Group increased by 21.6 percent as the Company benefited from a full year's contribution from Gulf Rubber and from 5.7 percent organic growth.

The combination of a currency impact of $4.7 million due to the strengthening New Zealand Dollar, slower trading conditions in New Zealand and factory under-recoveries (resulting from inventory reductions) resulted in a reduced Net Profit After Tax (NPAT) of $9.2million (before abnormals).

Offshore revenues continued to increase steadily as a proportion of overall revenue, from 58 percent in 2006 to more than 62 percent in the latest year. The revenue contribution of the Industrial Division increased as expected (from 65 percent to 71 percent), positively affected by recent acquisitions and strong performances from mining in Australia and our New Zealand construction industry businesses (particularly Containment).

The Industrial Division performed well, considering the impact of the weak US Dollar on its exporting businesses in Australasia. Revenue increased by 31.5 percent including a full year's contribution from Gulf Rubber and 8 percent organic growth. Earnings at the EBIT level increased by 6.2 percent with the additional contribution from a full years earnings from Gulf Rubber compensating for the adverse foreign currency impact.

Within the Agri Division, revenues increased by 2.9 percent, but EBIT reduced by 25.9 percent due to the impact of the high New Zealand Dollar and factory under-recoveries.

The group balance sheet reflects the combined effects of the provision for restructuring costs; an increase in debt levels from the acquisition of Tumedei; and completion of the deferred purchase payment for Gulf Rubber. Group net debt is now $106.0 million, compared with $77.0m last year.

Operating cash flows were affected by the contraction in operating profit and some restructuring costs already incurred.

The group's investment in trading working capital has increased from $46 million last year to $51.6 million this year as a result of the Tumedei acquisition and the expansion in Gulf's trading, offset by stock and debtor reductions in other businesses.

STRATEGIC REVIEW AND FOCUS

As noted in the Chairman's report, the acquisitions of Gulf Rubber and Tumedei have enabled us to refine the company's strategic direction, giving greater market and product focus.

The key factors in our strength as a group are:

- The expertise developed in technical polymer products.
- The ability to make best use of low-cost manufacturing facilities through a combination of outsourced and in-house capability.
- The access, across the group, to distribution networks that leverage the marketability of our products world-wide.

In future, we can achieve the greatest competitive advantage within our niche by building on the strength of specialist intelligence which, when combined with the breadth and depth of our distribution networks, places our core products at highest value.

With our position in the Australasian market well-recognised, our focus will increase on the European and the United States markets, whilst also targeting sales into the developing Asian and South American markets.

We will use the combined specialist knowledge held across the group to leverage improved manufacturing technologies, aimed at continuously improving the quality, reliability and cost-efficiency of polymer products within our niche.

A consequence of our focus on growth opportunities for technical products may be the sale of some existing businesses that do not have a tight fit with our future strategy. The volatility and strength of the NZ Dollar also makes it necessary to further develop our already extensive outsourcing of industrial products for the New Zealand market. The greatest impact will be on Skellerup's Christchurch factory, through a reduction in non-dairy related manufacturing.

The abnormal charges of $17.9 million arising from the outsourcing decision and the consequent restructuring of the Christchurch factory were compensated by a deferred tax credit of $8.3 million. As a result, NPAT for the 2007 year was a profit of $0.6 million.

ACQUISITIONS AND INITIATIVES

The Gulf acquisition in 2006 was a significant milestone in enabling Skellerup to narrow its focus going forward, providing better than expected earnings and significantly increasing our core technical expertise, global manufacturing capabilities and distribution networks.

The purchase in May 2007 of Tumedei, an Italian technical rubber manufacturer with origins going back to 1902, was a further significant initiative that built on our strategy of greater focus. In particular, Tumedei will provide a sound base for the Industrial division to position itself for growth in Europe.

With the Tumedei acquisition completed and some re-organisation already undertaken to make best use of the synergies between Gulf and Tumedei, the group is well positioned for growth. In the coming year, we will continue to work to optimise the contribution Tumedei brings to overall group operations. More information about this acquisition is provided in a separate report on page 8.

The implementation of a JD Edwards / Oracle central business system within Skellerup Industries - to enable us to align computer systems across the business - was completed and went live in early December. While there were some short-term implementation issues that affected customer service, these have been addressed and we are now concentrating on refining the system to get best value from it.

Work will continue this year to ensure our subsidiary companies are able to obtain the benefits of centralised systems where applicable.

A shift to greater outsourcing, is inevitable; and provides a possible alternative to divestment of non-core companies in the event that timeframes for sales are extended. Outsourced manufacture is aimed to increase competitiveness of the relevant businesses, and will therefore also help to make them more attractive to potential purchasers.

We will also continually review the cost-efficiency of the manufacturing facilities world-wide for our core businesses, to ensure we have access to the least-cost, most practicable production arrangements available.

GEOGRAPHIC REVENUE MIX

Overseas revenue now represents over 62% of total revenue

HEALTH, SAFETY AND THE ENVIRONMENT

We are very pleased with the continued progress in Health and Safety across our businesses through the year.

In July this year, our Christchurch plant was anonymously nominated for the Champion Canterbury Workplace Safety Award, which recognises businesses committed to workplace safety systems and procedures. We are delighted to have been selected as one of three finalists from a total of 180 companies entered for these awards.

Our strategy of employee empowerment and concentrated training has led to a continued reduction in total injury rates, as well as pleasing indications of high levels of employee job satisfaction.

We have also continued to focus on ensuring our manufacturing processes are environmentally responsible and sustainable; and we pride ourselves on adopting 'good citizenship' practices.

OUR PEOPLE

Building on last year's expansion of the global Skellerup family, we welcomed staff from Tumedei, Italy earlier this year. Through the period leading up to this acquisition, several of our management team and a director visited the company's facilities in Bologna and Ala, and began to develop strong relationships with the Tumedei management, sales and operational staff. Recently, three key Tumedei executives visited Australia, New Zealand and Vietnam, further cementing relationships and understanding.

Two key members of Gulf Rubber's technical sales team have now relocated to Italy, bringing advantages to both companies through knowledge sharing and accessing wider geographical marketing channels. The extension of our team into Europe will bring benefits across the group in terms of greater technical expertise and opportunities for professional development for staff.

In December 2006, Chief Operating Officer Mike McKessar resigned from the company, prompted by his desire to continue his career development. Mike helped guide the development of the company's operational structure and provided sound and dedicated management and strategic expertise as a key part of the management team. I would like to take this opportunity to thank him for his contribution, and wish him the very best in his new role.

Wherever they are located in the world, and whichever company they report to, Skellerup people share in a common value system which appreciates integrity, quality, reliability and dedication. With global shortages in skilled staff affecting our businesses along with many others, we recognise the importance of looking after our staff, whatever their position or background.

We aim to provide good working conditions, a challenging environment with appropriate opportunities for advancement, and great working relationships between our staff. We believe that our plans for the future health and stability of the group will enable us to continue to reward their loyalty and the efforts they make to contribute to the company's success.

FUTURE FOCUS

Global markets for technical rubber products are expected to continue to expand, influenced by increasing demand for specialised and sophisticated componentry for a wide range of industrial applications. In particular, demand within highly developed industrialised nations or regions, such as Europe and the United States, will continue to increase. The fast-developing Asian and South American markets will also consume significant volumes over time.

We aim to continue to grow our Industrial division by increasing our marketing and sales resource in targeted geographical locations to take best advantage of our strengths.

Meanwhile, the global dairy industry is booming and retains a very positive outlook in terms of both returns and the expansion of its production base. Skellerup has the products and the distribution channels to participate positively.

The challenges we have faced over the past year have prompted us to review the base elements that differentiate us in an increasingly competitive global environment.

We recognise that our greatest strengths lie in the combination of our technical capabilities within a relatively tight niche of technical polymer products; our ability to source low-cost manufacture; and the breadth and depth of our collective distribution networks.

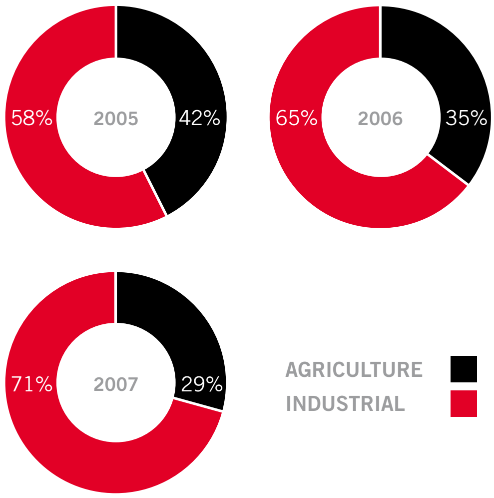
The international trend for increasingly globalised manufacture and distribution – together with identification of markets with the greatest potential for our products – will shape our decision-making on location of production capability and market presence.

The tightening of our definition of core products and capabilities, through which we can leverage our competitive advantage, will drive investment in, and divestment of, business units over the coming years.

DONALD STEWART MANAGING DIRECTOR

DIVISIONAL REVENUE MIX

- Industrial revenue now represents over 71% of total revenue
- Trend expected to continue



TUMEDEI
ACQUISITION

SPOTLIGHT ON EUROPE

The acquisition of Tumedei completed in May 2007 was the culmination of many months of investigation and due diligence by the Management team with assistance from independent advisors where appropriate.

Tumedei was selected primarily due to its strong synergies with the Skellerup Group in production technologies, together with its ability to provide the Group's Industrial technical rubber businesses with a European base and an existing distribution network.

With origins going back to 1902, Tumedei was purchased in 1980 by Fulvio Tumedei. Currently employing 50 staff, Tumedei manufactures and distributes a range of highly technical rubber products in Ala, Northern Italy. Tumedei Head Office and Sales and Distribution centre are based in Bologna some 150km south of Ala.

The product range includes fabric reinforced and rubber coated diaphragms typically used in high performance pressure regulators and valves, rubber to metal and rubber to plastic components, and specialised rubber products used in a wide range of applications, including the automotive, medical, appliance and petrochemical industries.

The company has outstanding design capabilities and superb laboratory facilities where product development is of a very high standard.

Tumedei's primary markets are within Europe, with 10% of sales into the United States. Opportunities for synergies between Gulf Rubber and Tumedei were clear early in the investigation process.

Tumedei's excellent distribution networks and manufacturing facilities clearly provide a European base for distribution and/ or manufacture of selected Gulf Rubber Products for the European market. Gulf's Australasian technical expertise and access to low-cost manufacturers will in turn assist Tumedei to expand its product range to its existing customer base.

The opportunity to leverage the respective technical strengths of both companies was also compelling – the highly skilled and specialised technical teams operating within both companies with advanced expertise in technical polymer production were obvious targets for cross-pollination of ideas and technical know-how.

Two key sales executives from Gulf Rubber have now joined the Tumedei team in Italy. Through the establishment of the Group's European base at Tumedei, constraints relating to time differences, local service provision, and travel time have been reduced, bringing benefits to distribution of Gulf products into Europe as well as reciprocal benefits of extending distribution of Tumedei products through Gulf's Australasian and USA networks.

The integration and (where applicable) reorganization of Tumedei's capabilities will be ongoing through this financial year, with the full benefits of the acquisition coming on line over 2008 – 2009.

ADVANCED SOLUTIONS

For so many Skellerup products, the secret to high performance lies in the expertise and clever technology applied by our research and development teams, the time and effort they put into industry research, and their ability to translate those factors into products that provide our customers with better performance than others available.

More and more, we are finding ways in which the advanced technical solutions we develop to meet demanding performance criteria for product quality and reliability – can be adapted and applied to new products, even in quite different applications.

Across the Skellerup group of companies, there is a growing body of knowledge in specialised manufacturing methods, product formulae and design which places our company at the cutting edge of rubber product development world-wide.

The foam manufactured by Ultralon for boot liners is a great example. With a specialised formulation developed by the research and development team, the foam provides lighter, warmer, more comfortable linings with outstanding shock absorption characteristics – they can absorb significantly more impact than most other products on the market.

Ultralon foams are used for linings for ski boots, for orthotic soles, head gear for rugby players, mats for gymnastics (including those at the 2006 Commonwealth Games), padding for hockey goalies and water ski bindings to name a few applications.

A very different, but equally specialised application of polymer technology is used by Skellerup Containment Systems for liners which are installed on landfill sites. Landfill sites have the challenge of enabling rainwater to reach the soil beneath the landfill, while ensuring that many different types of contaminants contained in the landfill do not leach through to the soil. A highly engineered triple layer system has been developed by Skellerup's supplier using high density polyethylene and geosynthetic clay.

The catch is that this highly specialised layer system precludes using an excavator for laying the material. Instead, a 200 tonnes crane with a 65-metre boom was used at the Kate Valley landfill to lay about 36,000 square metres of the specialised liner – a demanding exercise for the installation team.

Our newest acquisition, Tumedei in Italy, is an expert in the manufacture of sophisticated diaphragms, including fabric reinforced diaphragms, used to control water and gas flows under demanding conditions. Some of which are used in the automotive industry for applications such as turbo charger diaphragms or truck brakes.

Tumedei's research and development capability complements the specialist expertise in some of our other companies – notably Gulf Rubber, which also manufactures some specialised types of diaphragms (thin wall diaphragms and irrigation diaphragms).

Gulf's technical team has developed niche polymer products for Moen, one of the world's largest manufacturers of plumbing supplies. Their challenge was to develop low friction, internally lubricated components that were resistant to water treatment chemicals used in the USA, yet still meet drinking water standards. The resulting products have been very well received, achieving greatly increased sales volumes since their launch.

Our roofing division is well known for providing high quality butyl products which meet the now very high standards demanded by the building industry following the leaky building era.

Even our footwear division has come up with some startling innovations which elevate the humble gumboot to new, and very specialised uses. Skellerup's formulations now provide the toughness needed to withstand extreme temperatures to protect our fire fighters – and the input from our staff involvement on the Australian / New Zealand Standards Committee has given Skellerup the opportunity to be actively involved in reviewing standards for fire fighters equipment – an obvious benefit to the company's research teams.

The Dairy division continues to develop new and better rubber formulations and products to assist the dairyman to obtain quicker milkings (important as herd sizes continue to grow) with less mastitis.

With an increased focus on technical polymer products, we will be exploring ways in which we can work with our key performers in research and development to 'cross-pollinate' their ideas and build a level of technical intelligence in our industry niche that rivals all global competition.

FOCUS ON AGRI OPERATIONS

Despite a revenue increase for this division of 2.9% this year, Earnings before Interest and Tax (EBIT) were 26% down on last year, primarily as a result of currency effects, but also reflecting challenging trading conditions and higher costs.

When adjustment is made for the foreign exchange movement, the result is a marginal decrease in EBIT of 1% on last year – still a disappointing result overall for this division.

The best performing business units were Ambic, Dairy Pumps and Conewango, however their returns were off-set by the currency-related, less-than-optimal returns from other businesses within the division.

Within the Agri division, future success will depend on our ability to focus on those products which involve a level of technical expertise in their manufacture which is difficult for competitors to copy. Fortunately most of our Agri products meet this criteria.

Our ability to outsource manufacture, leveraging the abilities of our technical teams in developing proprietary production methods and formulae, becomes more and more important; and we will continue to increase the level of outsourced manufacture where we can achieve reductions in costs and greater global competitiveness.

Dairy New Zealand experienced sound sales growth; however EBIT was negatively affected by abnormal factory under recoveries resulting from our focus on reducing inventories. The recent announcement of an increased payout from Fonterra to dairy farmers, combined with the current confidence in the Dairy industry over the next two to three years, suggests an optimistic future.

Stevens Filterite, a manufacturer of advanced milk filters, reported positive increases in sales and EBIT compared with last year (which was a very good year).

Our footwear business continues to develop its export market with increased contract manufacture of a range of gumboots for USA-based La Crosse Footwear, using the capability of our China facility. New Zealand sales of leather work boots under the Schoen® brand have positive prospects, following the introduction of four new styles which feature the latest in soling technology.

As a primary exporter, profitability for Dairy International was adversely impacted by the strength of the New Zealand dollar, as well as factory under-recoveries as we reduced inventory. On the positive front, in spite of the strong NZ dollar, new business has been won in Europe and the USA. This has mainly been due to our development of products that meet increasingly strict food safety regulations and out-perform competitive products. Dairy International will also be positively affected by forecast improvements to the domestic dairy sector, which will flow on to their NZ based OEM customers.

Conewango, our USA-based dairy rubberware distribution business, had a relatively flat year on the back of two or three years of good growth.

Ambic, our UK-based company specialising in producing dairy hygiene equipment, was a sound performer, building on last year's sales by 8.7%; and making accelerated progress in product development with its strengthened research and development team.

A new management structure – together with both IT and injection moulding equipment upgrades, and more robust reporting and budgeting systems – are combining to place the company in a strong position for future development of specialist technical products under Skellerup's direction.

Over the coming year, Ambic will be focusing on automation of manufacture where possible to reduce labour costs and improve competitiveness of our products.

The global demand for dairy products continues to grow, which can only be positive for Ambic as farmers look to maximize per head production output and efficiency.

LOOKING FORWARD

In line with our overall strategy of focusing on areas that will make best use of our technical expertise, access to low-cost manufacturing, and global distribution networks, we will be reviewing which of our Agri businesses will contribute best to the group in future.

We are recognised internationally for our competence in core areas of dairy rubberware technology, footwear manufacture and associated products, and within these areas there are good growth opportunities and further synergies that can be targeted.

Over the coming year, we will concentrate on securing lowest-cost manufacture of those products that will leverage our technical expertise, and that will provide greatest benefit to the group overall through their distribution networks.

FOCUS ON INDUSTRIAL OPERATIONS

Our Industrial Division performed well, considering the impact of the weak US Dollar on our exporting businesses in Australasia.

Gulf's operations in both Australia and New Zealand exceeded expectations, contributing strongly to divisional EBIT as well as providing benefits from in-house technical capabilities, and competitive outsourced manufacturing facilities.

The purchase of Tumedei into this division (described in detail on page 8) provides a very complementary fit with our existing businesses (particularly Gulf) as well as our future strategy for focus on technical polymer production.

The International Pump business was down on the previous record year which had increased partly as a result of the major hurricanes experienced in the US during 2006.

Against this, we have achieved significant progress towards outsourcing and growth plans for Ultralon and Deks, and an excellent performance from our Containment business.

The Industrial division continues to grow its share of Skellerup's overall business, now contributing over 70% of gross revenue to the group.

NEW ZEALAND

The strength of the NZ Dollar had an impact on the profitability of the New Zealand-based export businesses in this division; and New Zealand-based manufacture of products that are unspecialised in nature was not surprisingly the victim of competition from offshore manufacturers.

While a poor European ski season reduced sales for Ultralon's ski boot liners, there is encouraging interest in Ultralon foams from major global suppliers of orthotics and sports products; and we are confident these will translate to further growth once we have finalised low-cost manufacturing options.

Our Containment business – which installs land fill and wastewater linings, stormwater traps and associated products – enjoyed buoyant trading conditions, completing a large number of high-profile projects within New Zealand including landfills in Auckland, Canterbury, Rotorua and Omarunui. The long-term outlook for this industry is positive, based on steadily growing environmental concern in relation to containment of potentially harmful discharges, such as dairy effluent.

Our Conveyor business had a challenging year, affected by a reduction in infrastructure projects requiring conveyor systems. Improvements to plant, including installation of a Dutch manufactured belt slitter will enhance productivity and belt quality, thereby improving the competitiveness of this business.

Roofing sales increased marginally on last year, but EBIT suffered through increased competition from imported membranes. Good progress was made in pitched roof products.

AUSTRALIA

Gulf Rubber Australia has performed well this year, with sales across the board exceeding expectations. After a flat year, the Australian automotive industry appears to be recovering; and the water pipe industry is booming, bringing strong prospects for continued growth in these areas of the business.

The company has maintained a strong list of up-coming projects, essential for positive sales forecasts and future planning.

Gulf personnel have been heavily involved in the Tumedei purchase, contributing to the evaluation of the business and planning to realise potential benefits to both companies from the acquisition.

To enable Tumedei to remain competitive, some Tumedei products will in future be manufactured by Gulf's Vietnamese supplier, enabling the convergence of technologies and sharing of production expertise.

Two key personnel from Gulf have relocated to join the Tumedei team in Bologna, Italy. They will be instrumental in planning and implementing sales and marketing initiatives that will benefit both companies.

Building on the experience of the Gulf team, we have begun to source more cost-competitive manufacture for selected products from Deks, including cut washers which are now manufactured in Thailand.

Deks distribution continued to grow internationally with a new distributor appointed in Mexico, and the first container order now received and shipped. The company has increased its focus on the important and growing market in domestic plumbing and roofing products. Deks UK operation has performed well with strong EBIT growth; and strong sales of the Selkirk chimney which was launched into New Zealand this year.

The Mining business in Australia had a sound year, boosted by continued growth in the supply of Flexiflo® shute linings.

USA

Following last year's record result for USA-based Vacuum Pumps, sales and EBIT decreased this year.

EBIT was adversely affected by the requirement to reduce inventory levels, which had a marked impact on factory recoveries as manufacturing volumes were below expectation.

LOOKING FORWARD

The Industrial Division continues to increase its relative contribution to group revenues and profits, and this trend will continue as the revenues from Tumedei are absorbed into the group for the full year in 2008.

We expect to be able to penetrate markets for our increased range of specialised technical polymer products in Europe, and the USA, through our access to the increased number of distribution networks and the European base provided by the acquisition of Tumedei.

Within the Industrial Division, we are subject to intense competition for non-specialised products, hence, in line with our corporate strategy, we will focus on highly technical products where we have access to specialised expertise or technology for production. We will also target for development those products which provide us with cost-competitive production – through our own, or outsourced manufacturers.

HEALTH, SAFETY AND ENVIRONMENT

The key to effective safety management within organisations like Skellerup is undoubtedly to involve everyone in identifying hazards and making sensible decisions that reduce the likelihood (or the impacts) of accidents.

At Skellerup, we recognise the importance of backing up the safety awareness of our staff with supportive policies, protective equipment, equipment and training programmes that will help them to work safely and efficiently at their everyday tasks.

Good safety management also results in spin-offs which extend to reducing errors, improving product quality and reliability, increasing overall job satisfaction levels and reducing staff turnover – which in turn reduces training and recruitment costs.

The advantages of sound safety systems, therefore, are economic as well as the obvious benefits to our staff.

Our safety programme aims to increase the effectiveness & efficiency of work activities, by:

- improving workplace layout, equipment and methods;
- eliminating unnecessary fatigue, and
- improving job satisfaction and employee quality of life in general.

Our focus on individual responsibility for safety has resulted in an 80% reduction in medical treatment and lost time injuries during the three years to mid 2007.

In the 2006/2007 year, our Total Incident Rate (TIR) (which measures lost-time and medical treatment injuries per 200,000 hours worked) decreased by a very significant 19%, from 6.81 to 5.50.

Company and staff commitment to safety has seen Skellerup named as a finalist for excellence in Health and Safety in the 2007 Champion Canterbury Awards. The company was anonymously nominated, and winners will be announced in September this year.

We have continued the Key Element Assessment (KEA) Internal health and safety audit and improvement programme, with 11 audits completed during the 12 months. These included the first KEA audits for MINC (USA) and Gulf Rubber in Sydney and Auckland. We arranged training for 12 staff to become KEA auditors during the year, more than doubling the company's number of available trained auditors (now 21 in total).

During the year, the Human Resources Team carried out a comprehensive review of Health and Safety management software, and selected the 'Mango' system to replace our existing software. The key advantage that led us to choose Mango was the fact it allowed a large proportion of the workforce to access and use the system, which will encourage shared learnings from hazard and incident data.

About 80 of our staff now have access to this system (compared to only five for our previous system), emphasizing the company's commitment to a participatory approach to Health and Safety.

In addition, a review of 'Third Party Administrators' (TPAs) was undertaken. TPAs act to ensure any injured employees received the best possible rehabilitation and are able (where possible) to achieve an early return to work.

In July 2006, we contracted the services of WellNZ Ltd, the TPA who we considered will provide the best injury management outcome for any of our staff who happened to get injured (fortunately very few compared to three years ago). The investment has been well worthwhile – and the service from this TPA has been outstanding.

The Health and Safety culture within our businesses has markedly improved over the past three years - evidenced by the continual steady improvements in hazard reporting & reporting of near-hit incidents by employees. With continued emphasis on staff training and resourcing, the quality of hazard management and incident investigations has also substantially improved, with on-going downstream benefits to our staff and the overall wellbeing of our organisation.

ENVIRONMENTAL PERFORMANCE

Skellerup continues to focus on ensuring that our environmental practices – not only within our domestic facilities but also throughout our subsidiary companies – represent industry best practice world-wide.

We are currently working on a target sustainability project together with Christchurch City Council, and have signed a Memorandum of Understanding to record the agreement between Skellerup and Council to achieve joint objectives of waste reduction, water and energy efficiency for our business site in Christchurch.

The initiatives we have put into place include:

- Ensuring that none of the trade waste drains on site can overflow into storm water drains.
- Building a purpose-designed containment area and providing bund vessels for waste oil drums to eliminate the risk of potential spillage into the storm water system.
- Conducting a full site audit on lighting; and implementing a replacement program which only uses low wattage Eco bulbs.
- Replacing motor starters with new soft starters, to save energy on machine start up.
- Replacing an Air Compressor with a new Variable Speed Drive unit - enabling energy savings of over 4,000 kw hours per week.
- Maintenance work on our boiler to reduce emissions to nearly half the discharge consent limit.
- Operating all air discharge equipment at high efficiency levels – with a regular strict monitoring programme to ensure the levels remain high.
- Installing a new bag house filtration unit to reduce air discharge.
- Implementing and maintaining a recycling program for all plastic and paper waste.

This is an area of keen interest for our management and staff, and we always remain open to suggestions from staff, customers and suppliers that will help us to continuously reduce our carbon footprint and improve the environmental sustainability of all our operations.

The corporate governance practices adopted by the Company meet the requirements of the New Zealand Exchange's Corporate Governance Best Practice Code.

The Board of Directors is committed to maintaining the highest standards of corporate governance. This report outlines the policies and procedures under which the Skellerup Group is governed:

CODE OF ETHICS

Skellerup's Code of Ethics governs its conduct. Its purpose is to:

- Set policy and provide guidance for ethical issues,
- Establish compliance standards and procedures,
- Provide mechanisms to report unethical behaviour, and
- Provide for disciplinary measures.

ROLE OF BOARD OF DIRECTORS

The Board of Directors is elected by the Company's shareholders to direct and supervise the management of the Company. The Board's role is to:

- Establish the strategic direction and objectives of the Company.
- Set the policy framework within which the Company will operate.
- Appoint the Managing Director.
- Delegate appropriate authority to the Managing Director for the day-to-day management of the Company.
- Monitor performance of the Managing Director and the Board Committees on a regular basis.
- Approve the Company's system of internal financial control; monitor and approve budgets; and monitor monthly financial performance.

BOARD SIZE AND STRUCTURE

The current policy is that the Board will comprise six non-executive (independent) Directors. The Managing Director is the only executive director. Non-executive directors are selected to ensure that a broad range of skills and experience are available. One of the non-executive directors is appointed as Chairman.

Board procedures ensure that all Directors have the information needed to contribute to informed discussion on all monthly agenda items and effectively carry out their duties. Senior managers make direct presentations to the Board on a regular basis to give the Directors a broad understanding of management philosophies and capabilities.

A formal system has been put in place to review the performance of the Board and the individual Directors.

BOARD COMMITTEES

The Board has three standing committees, described below. Special project committees are formed when required. The Board regularly reviews the performance of the standing committees against written charters specific to each committee.

1. AUDIT AND RISK MANAGEMENT COMMITTEE

This committee comprises three non-executive directors, one of whom is appointed as Chairman. The Managing Director and the Chief Financial Officer attend as ex-officio members; and the external auditors attend by invitation of the Chairman.

This Committee meets a minimum of four times each year. Its responsibilities are to:

- Ensure that the Company has adequate risk management controls in place;
- Advise the board on accounting policies, practices and disclosure;
- Review the scope and outcome of the external audit; and
- Review the annual and half-yearly statements prior to approval by the Board.

The Audit and Risk Management Committee reports the proceedings of each of its meetings to the full Board.

The current composition of the committee is Elizabeth Coutts (Chair), Keith Smith and Graham Fraser. The Committee met four times during the current year.

2. REMUNERATION COMMITTEE

This committee comprises four non-executive directors. It meets as required to:

- Review the remuneration packages of the Managing Director and Senior Managers.
- Make recommendations to shareholders in relation to non-executive director remuneration packages.

Remuneration packages are reviewed annually. Independent external surveys are used as a basis for establishing competitive packages.

The current composition of the Remuneration Committee is Arthur Young (Chairman), Keith Smith, Leigh Davis and David Mair.

3. BOARD NOMINATION COMMITTEE

This committee comprises three non-executive directors. It meets as required to recommend director appointments to the Board.

The current composition of the Board Nomination Committee is Arthur Young (Chairman), Elizabeth Coutts and Graham Fraser.

ORGANISATIONAL STRUCTURE AND FINANCIAL REPORTING

The Board has delegated the management responsibilities of the Company to the Managing Director.

The financial progress of the Company's two divisions is reported separately to the Board each month to enable divisional financial performance to be analysed prior to consolidation of the accounts. Delegation of capital expenditure is limited and clearly defined with a Board-approved annual budget. This is monitored monthly.

INTERNAL FINANCIAL CONTROL AND RISK MANAGEMENT

The Board, advised by the Audit and Risk Management Committee, approves the Company's system of internal financial control. This system includes clearly defined policies controlling treasury operations and capital expenditure authorisation.

The Chief Financial Officer is responsible to the Managing Director for ensuring that all operations within the Company adhere to the board-approved financial control policies.

The Board has established a framework for the relationship between the Company and the external auditor. This framework ensures that:

- Recommendations made by the external auditor and other independent advisers are critically evaluated and, where appropriate, applied; and
- The Company has defined policies and procedures in place as appropriate internal controls to manage risk effectively.

The Board ensures that adequate external insurance cover is in place appropriate to the Company's size and risk profile.

The Company has a risk register that identifies the key risks facing the business, and the status of initiatives implemented to manage them. This risk register is reviewed and updated on a regular basis.

SHAREHOLDER RELATIONS

The Board aims to ensure that shareholders are kept informed of major developments affecting the Company. Information is communicated to shareholders primarily through the Annual and Interim Reports. Any material affecting the Company during the intervening period is immediately reported to the New Zealand Stock Exchange under the 'continuous disclosure' regime.

The Board encourages shareholders to attend and participate fully at the Annual Meeting to ensure a high level of accountability. Investors can obtain information on the Company from its website (www.skellerupholdings.co.nz).

BOARD OF DIRECTORS

1. KEITH SMITH CHAIRMAN B.COM, F.C.A

Keith Smith is currently Chairman of NZX-listed companies The Warehouse Group, Tourism Holdings, and is a director of PGG Wrightson and Goodman (NZ) Limited. He is also a director and advisor to companies in a diverse range of industries, including printing, media, meat by-products, tannery processing and exporting. Keith was previously a partner in BDO Spicers and is a past president of the Institute of Chartered Accountants of New Zealand. Keith has been Chairman of Skellerup Holdings since our public launch in 2002.

2. ARTHUR YOUNG DIRECTOR LLB

Senior partner and Board Chairman of law firm Chapman Tripp Sheffield Young, Arthur is also Deputy Chairman of AFFCO Holdings; and is currently Chairman or a director of various unlisted or privately controlled companies. These include Dresden Equities Limited, the Equitable Group, McConnell Limited, the Southpark Group, Haydn & Rollett Limited and Direct Property Fund Limited.

3. DONALD STEWART MANAGING DIRECTOR B.COM

Donald has been Managing Director for Skellerup since 1992, and was Chief Executive of Viking Pacific Holdings from 1999 – 2002. He previously held a number of management positions within Skellerup. Donald is a board member of Sport and Recreation New Zealand (SPARC), a former director of Lyttleton Port Company and is a past Chairman of the Canterbury Rugby Football Union.

4. ELIZABETH COUTTS DIRECTOR B.MS, C.A.

A former Chief Executive of Caxton Group, Elizabeth is Chairman of listed company Life Pharmacy Limited and a director of EBOS Group Limited. She is also Chairman of the Audit, Risk and Finance Committee of the Ministry of Health; external Monetary Policy Advisor to the Governor of the Reserve Bank of New Zealand; and a member of the University of Waikato Management Studies Advisory Board. She was previously Chairman of Meritec Group Limited and Industrial Research Limited; Deputy Chairman of the Public Trust; and a Commissioner of both the Commerce Commission and the Earthquake Commission. She has been a Director of the Health Funding Authority, PHARMAC; Air New Zealand Limited; New Zealand Tennis Incorporated; Sport & Recreation NZ; and Trust Bank New Zealand; and a member of the Financial Reporting Standards Board of the Institute of Chartered Accountants of New Zealand.

5. LEIGH DAVIS DIRECTOR M.A. (HONS)

An investment banker, Leigh was instrumental in establishing Fay Richwhite Investment Banking, and maintained a role as co-head of this firm from 1985 to 1995. He then continued his association within Fay Richwhite, specialising in private capital investment. In 1999, Leigh set up Jump Capital, a private equity investment company. He is also a director of Crown Castle Australia and Property Finance Group Limited. He recently became a trustee of the Arts Foundation of New Zealand.

6. GRAHAM FRASER DIRECTOR B.COM

Graham has an extensive background in the dairy and rural sector. He was Chairman of the NZ Dairy Board in 1999, having been a director of the NZ Cooperative Dairy Company since 1991. Graham is a director of Live Stock Improvements and Ag Research; and was formerly New Zealand's Special Agricultural Trade Envoy.

7. DAVID MAIR DIRECTOR B.E MBA

David joined the Board at the end of November 2006. David's background of international operations management experience provides an excellent fit with the Company's expansion of manufacturing capability and market penetration particularly in Asia. David is Chairman of Galloway Corporation Limited and a Director of High Modulus International Limited. He is a former Executive Director of Interlock Group and was a Vice President of Asia Pacific Operations and an Operational Council Member of ASSA ABLOY (Sweden).

FINANCIAL STATEMENTS

CONTENTS

ERNST & YOUNG ■ Chartered Accountants

To the Shareholders of Skellerup Holdings Limited

We have audited the financial statements on pages 19 to 21. The financial statements provide information about the past financial performance of the company and group and their financial position as at 30 June 2007. This information is stated in accordance with the accounting policies set out on pages 22 to 38.

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' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company and group as at 30 June 2007 and of their financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the company and group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 19 to 21:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the company and group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 17 August 2007 and our unqualified opinion is expressed as at this date.

Ernst + Young

Auckland

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Revenue					
Continuing activities	2	**193,870**	159,394	**15,395**	13,443
Operating Surplus		**13,590**	21,200	**7,160**	–
Restructuring costs	19	**17,914**	–	**350**	–
Operating Surplus/(Deficit) Before Tax from Continuing Activities	3	**(4,324)**	21,200	**6,810**	7,463
Tax expense/(credit)	5	**(4,961)**	7,843	**5**	137
Net Surplus Attributable to the Shareholders of the Parent Company		**637**	13,357	**6,805**	7,326

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Net Surplus for the Year		**637**	13,357	**6,805**	7,326
Other recognised revenues & expenses					
– Movement in foreign currency reserve	9	**(5,388)**	3,174	**–**	–
– Movement in fixed asset revaluation reserve	9	**60**	1,242	**–**	–
– Movement in retained earnings from asset revaluation on property, on disposal of plant & equipment	10	**(60)**	–	**–**	–
Total Recognised Revenues and Expenses		**(4,751)**	17,773	**6,805**	7,326
Shares issued	8	**1,404**	5,328	**1,404**	5,328
Distribution to Owners					
– Interim & final dividend paid		**(8,381)**	(7,145)	**(8,384)**	(7,147)
Movement in equity for year		**(11,728)**	15,956	**(175)**	5,507
Equity at beginning of year		**49,013**	33,057	**32,306**	26,799
Equity as at 30 June	**7**	**37,285**	49,013	**32,131**	32,306

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE	NOTE	GROUP		PARENT	
		2007 $000	2006 $000	2007 $000	2006 $000
Total Equity	7	**37,285**	49,013	**32,131**	32,306
Current Assets					
Cash		**10,631**	10,396	**–**	4,699
Receivables and prepayments	11	**44,887**	37,826	**458**	99
Inventories	12	**39,244**	37,999	**–**	–
Construction contracts in progress	13	**–**	–	**–**	–
Total Current Assets		**94,762**	86,221	**458**	4,798
Non-Current Assets					
Property, plant and equipment	14	**49,329**	43,619	**3**	6
Intangibles	15	**51,038**	42,808	**–**	–
Investments & advances	16	**–**	–	**132,754**	95,487
Deferred tax asset	5	**8,302**	–	**31**	–
Total Non-Current Assets		**108,669**	86,427	**132,788**	95,493
Total Assets		**203,431**	172,648	**133,246**	100,291
Current Liabilities					
Bank overdraft	18	**–**	–	**547**	–
Payables	19	**49,390**	36,273	**2,568**	1,985
Current portion of term liabilities	20	**55,000**	–	**55,000**	–
Total Current Liabilities		**104,390**	36,273	**58,115**	1,985
Non-Current Liabilities					
Term liabilities	20	**61,756**	87,362	**43,000**	66,000
Total Non-Current Liabilities		**61,756**	87,362	**43,000**	66,000
Total Liabilities		**166,146**	123,635	**101,115**	67,985
Net Assets		**37,285**	49,013	**32,131**	32,306

For and on behalf of the Board, which authorised these financial statements on 17 August 2007.

K.R. SMITH CHAIRMAN

D.J. STEWART MANAGING DIRECTOR

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Cash Flows from Operating Activities					
Cash was provided from:					
- Receipts from customers		**186,990**	158,028	**–**	–
- Interest received		**266**	150	**46**	43
- Management fees		**–**	–	**8,649**	6,500
- Dividends received from subsidiaries		**–**	–	**6,700**	6,900
- GST net		**899**	716	**34**	–
		188,155	158,894	**15,429**	13,443
Cash was disbursed to:					
- Payments to suppliers and employees		**(161,086)**	(131,777)	**(2,388)**	(1,113)
- Interest		**(7,366)**	(4,899)	**(5,884)**	(3,764)
- Rent		**(6,228)**	(4,048)	**(35)**	(35)
- Taxation paid		**(5,745)**	(6,576)	**(119)**	(206)
- GST net		**–**	–	**–**	(365)
		(180,425)	(147,300)	**(8,426)**	(5,483)
Net Cash Inflow/(Outflow) from Operating Activities	26	**7,730**	11,594	**7,003**	7,960
Cash Flows from Investing Activities					
Cash was provided from:					
- Sale of property, plant and equipment		**–**	40	**–**	–
		–	40	**–**	–
Cash was disbursed to:					
- Purchase of property, plant and equipment		**(13,102)**	(13,132)	**(2)**	–
- Acquisitions of business assets & liabilities	17	**(20,032)**	(35,644)	**–**	–
		(33,134)	(48,776)	**(2)**	–
Net Cash Inflow/(Outflow) from Investing Activities		**(33,134)**	(48,736)	**(2)**	–
Cash Flows from Financing Activities					
Cash was provided from:					
- Draw-down of term facility		**29,394**	48,337	**32,000**	32,000
- Proceeds from shares issued		**1,404**	328	**1,404**	328
		30,798	48,665	**33,404**	32,328
Cash was disbursed to:					
Dividends paid to shareholders		**(8,381)**	(7,145)	**(8,384)**	(7,147)
Advance to subsidiaries		**–**	–	**(37,267)**	(36,814)
		(8,381)	(7,145)	**(45,651)**	(43,961)
Net Cash Inflow/(Outflow) from Financing Activities		**22,417**	41,520	**(12,247)**	(11,633)
Net Cash Inflow/(Outflow)		**(2,987)**	4,378	**(5,246)**	(3,673)
Effect of exchange rate changes		**3,222**	606	**–**	–
Net Increase in Cash		**235**	4,984	**(5,246)**	(3,673)
Cash at beginning of year		**10,396**	5,412	**4,699**	8,372
Cash at end of year		**10,631**	10,396	**(547)**	4,699

The accompanying notes form part of these financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Skellerup Holdings Limited (the "Company") is a company registered under the Companies Act 1993 and listed on the New Zealand Exchange.

The Skellerup Holdings Group consists of the Company and its subsidiaries.

The Company is an issuer for the purposes of the Financial Reporting Act 1993.

The financial statements of the Company and the Skellerup Holdings Group have been prepared in accordance with the Financial Reporting Act 1993.

MEASUREMENT BASE

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position is on an historical cost basis, with the exception that certain assets as specified have been revalued, are followed by the Skellerup Holdings Group.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies, which materially affect the measurement of financial performance and the financial position, have been applied.

(a) Basis of Consolidation - Purchase Method

The consolidated financial statements include the parent company and its subsidiaries accounted for using the purchase method. All significant inter-company transactions are eliminated on consolidation. In the Company's financial statements, investments in subsidiaries are stated at cost.

(b) Property, Plant and Equipment

The Group has four classes of Property, Plant and Equipment:

- Freehold land
- Freehold buildings
- Plant and equipment
- Furniture, fittings and other

Property, Plant and Equipment acquired as part of a business combination are initially recorded at fair value determined at the date of acquisition by an independent valuer. All other Property, Plant and Equipment are initially recorded at cost, including costs directly attributable to bringing the asset to its working condition ready for its intended use.

Plant and Equipment are revalued on a cyclical basis so that the fair value at any balance date does not differ materially from the carrying amount. Valuations are to fair value, as determined by an independent valuer. Revaluations are transferred to the asset revaluation reserve for that class of assets. If any revaluation reserve has a deficit, that deficit is recognised in the statement of financial performance in the period it arises. In subsequent periods any revaluation surplus that reverses previous revaluation deficits is recognised as revenue in the statement of financial performance.

Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalised. Any expenditure that increases the economic benefits derived from an asset is capitalised. Expenditure on repairs and maintenance that does not increase the economic benefits is expensed in the period it occurs.

When Property, Plant and Equipment is disposed of, the gain or loss recognised in the Statement of Financial Performance is calculated as the difference between the sale price and the carrying value of the property, plant and equipment.

Depreciation is provided on a straight line basis on all tangible assets other than freehold land, at rates calculated to allocate the assets' cost, or valuation less estimated residual value, over their estimated useful lives.

Leased assets are depreciated over the shorter of the unexpired period of the lease and estimated useful life of the assets.

Major depreciation periods are:

- Freehold buildings 40 years
- Plant and equipment 2 to 20 years
- Furniture, fittings and other 5 to 10 years

(c) Impairment

If the recoverable amount of a property, plant and equipment is less than its carrying amount, the item is written down to its recoverable amount. The write down of property, plant and equipment recorded at historical cost is recognised as an expense in the Statement of Financial Performance. When a re-valued item of property, plant and equipment is written down to the recoverable amount, the write down is recognised as a downwards revaluation. This is limited to the amount of revaluation, with the remainder a debit to the Statement of Financial Performance.

(d) Intangible Assets

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible assets acquired at the time of acquisition of a business or equity in a subsidiary company.

Goodwill is amortised by the straight line method over a 20 year period, which is considered to be the period during which benefits are expected to be received.

(e) Receivables

Receivables are stated at their estimated realisable value.

(f) Research & Development Costs

Research expenditure is recognised in the statement of financial performance in the period that it is incurred.

(g) Taxation

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using principles that values the inventory in its final location and condition. Using a first in first out methodology, raw materials and finished goods are valued at weighted average cost.

Cost of work in progress and finished goods inventories includes the cost of direct material, direct labour and a proportion of the manufacturing overhead, based on the normal capacity of the facilities, expended in putting the inventories in their present location and condition.

The bank loan is secured by a floating charge across all assets of the Group including all inventories held.

(i) Construction Contracts

Profits on Construction Contracts are determined using the percentage of completion method. Profits are recognised when the outcome of the contract can be reliably estimated. Foreseeable losses on a contract are recognised in the Statement of Financial Performance as soon as they are identified.

(j) Leases

Group entities lease certain plant, equipment, land and buildings.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the lease term.

Operating lease income is also included in the determination of the net surplus based on the agreed rental received during the period.

(k) Foreign Currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Short term transactions covered by foreign currency forward exchange contracts are measured and reported at the forward rates specified in those contracts.

The assets and liabilities of independent foreign operations are translated at the closing rate. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the foreign currency translation reserve.

The exchange differences on hedging transactions undertaken to establish the price of particular sales or purchases, together with any costs associated with the hedge transactions, are deferred and included in the measurement of the purchase or sale transaction.

(l) Financial Instruments

Financial instruments recognised in the statement of financial position include cash balances, bank overdrafts, receivables, payables, investments and advances and term borrowings. These financial instruments are recorded at cost in the financial statements. In addition members of the Skellerup Holdings Group are party to financial instruments with off-balance sheet risk to meet financing needs and to reduce exposure to fluctuations in foreign currency exchange rates. These financial instruments include guarantees of other bank overdraft facilities, swaps, options, forward rate agreements and foreign currency forward exchange contracts, and are disclosed at fair value in the notes to the financial statements.

Losses from financial guarantees are recognised by the Company when it becomes liable for the outstanding balances. Skellerup Holdings Group enters into foreign currency forward exchange contracts to hedge trading transactions, including anticipated transactions, denominated in foreign currencies. Gains and losses on contracts which hedge specific short-term foreign currency denominated transactions are recognised as a component of the related transaction in the period in which the transaction is completed.

Where the hedge of an anticipated transaction is terminated early, but the anticipated transaction is still expected to occur, the gain or loss that arose prior to termination of the hedge continues to be deferred and is recognised as a component of the transaction when it is completed. If the trading transaction is no longer expected to occur, the gain or loss on the terminated hedge is recognised in the statement of financial performance immediately.

The net differential paid or received on interest swaps is recognised as a component of interest expense or interest revenue over the period of the agreement. Premiums paid on interest rate options, and net settlements on forward rate agreements are amortised to the Statement of Financial Performance over the life of the hedged item or the period hedged.

Any financial instruments that do not qualify as hedges are stated at market value and any gain or loss is recognised in the Statement of Financial Performance.

(m) Cash Flows

For the purpose of the Statement of Cash Flows, cash includes cash on hand, deposits on call with banks and investments in money market instruments, net of bank overdrafts.

(n) Employee Entitlements

A liability for annual leave and long service leave is accrued and recognised in the Statement of Financial Position. The liability is equal to the estimated future cash outflows as a result of the employee services provided at balance date.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the prior year.

2. OPERATING REVENUE

FOR THE YEAR ENDED 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Sales	**193,364**	159,075	**–**	–
Rent revenue	**240**	169	**–**	–
Interest revenue	**266**	150	**46**	43
Management fees	**–**	–	**8,649**	6,500
Dividends received	**–**	–	**6,700**	6,900
Total Operating Revenue	**193,870**	159,394	**15,395**	13,443

3. OPERATING SURPLUS BEFORE TAXATION, AFTER CHARGING/(CREDITING):

FOR THE YEAR ENDED 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Bad debts written off	**27**	137	**–**	–
Change in provision for doubtful debts	**(200)**	(150)	**–**	–
Foreign currency losses/(gains)	**1,672**	(1,481)	**–**	–
Interest expense and interest charges	**7,366**	5,027	**5,632**	3,763
Rental and operating lease costs	**6,228**	4,048	**35**	35
Directors fees	**342**	280	**342**	280
Loss on sale of property, plant and equipment	**74**	126	**–**	–
Research & development costs	**1,150**	644	**–**	–
Amortisation of goodwill	**2,174**	1,475	**–**	–
Donations	**20**	5	**–**	–
Depreciation:				
- Freehold buildings	**26**	55	**–**	–
- Plant & equipment	**4,330**	3,245	**–**	–
- Furniture, fittings & other	**769**	916	**6**	7

4. AUDITORS' REMUNERATION

FOR THE YEAR ENDED 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Amounts Paid or Due and Payable to Auditors for:				
Auditing the financial statements				
- Parent company auditor	**274**	229	**48**	47
- Other auditors	**98**	107	**5**	–
	372	336	**53**	47
Other Services				
- Parent company auditor	**69**	49	**–**	–

5. TAXATION

FOR THE YEAR ENDED 30 JUNE	GROUP		PARENT	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
Operating surplus before tax	**(4,324)**	21,200	**6,809**	7,463
Prima facie tax	**(1,501)**	6,996	**2,247**	2,463
Tax effect of permanent differences	**425**	544	**(2,211)**	(2,273)
	(1,076)	7,540	**36**	190
Tax effect of timing differences	**(205)**	479	**1**	(29)
Tax credits and prior period adjustments	**(3,680)**	(176)	**(32)**	(24)
Tax Expense/(Credit)	**(4,961)**	7,843	**5**	137
The tax charge is represented by:				
Current tax charge	**3,341**	7,843	**36**	137
Deferred tax – current	**(4,547)**	–	**1**	–
Deferred tax – prior year	**(3,755)**	–	**(32)**	–
Total Tax Expense/(Credit)	**(4,961)**	7,843	**5**	137

DEFERRED TAX RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION AS A CURRENT ASSET IS AS FOLLOWS	GROUP	PARENT
	2007 $000	**2007 $000**
Deferred tax asset b/fwd – not previously recognised	**4,929**	**32**
FX movement & prior year adjustments	**(484)**	**–**
Deferred tax remaining unrecognised	**(690)**	**–**
Sub total last year	**3,755**	**32**
Movement for this Year	**5,254**	**(1)**
Deferred tax remaining unrecognised	**(707)**	**–**
Sub total this year	**4,547**	**(1)**
Total Deferred Tax Asset	**8,302**	**31**

The Group has asset depreciation and other timing differences that result in an amount of $8,302,000 (2006: $4,928,660 reported as a note only) being recognised as a deferred tax asset in the Statement of Financial Position in the current year. This includes the amount of $3,755,000 which relates to prior years. The amounts of $690,000 and $707,000 which relate to prior and current years' tax losses in foreign jurisdictions, remain unrecognised as a deferred tax asset as there is no certainty of realisation.

As a result of the business strategy to outsource products instead of manufacturing in New Zealand, there is more certainty that asset depreciation and other timing differences, recognised as a deferred tax asset, will be crystallised when the restructuring provision is applied and changes are made to the business processes.

6. IMPUTATION CREDIT ACCOUNT

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
Balance at beginning of period	**12,965**	11,183	**4,566**	4,481
Attached to dividends received	**–**	–	**3,300**	3,399
Attached to dividends paid	**(4,099)**	(3,487)	**(4,099)**	(3,487)
Income tax paid in New Zealand	**4,141**	5,269	**88**	173
Total Imputation Credits	**13,007**	12,965	**3,855**	4,566

7. EQUITY

AS AT 30 JUNE	NOTE	GROUP		PARENT	
		2007 $000	2006 $000	2007 $000	2006 $000
Share capital	8	**23,613**	22,209	**23,613**	22,209
Reserves	9	**(5,487)**	(159)	**–**	–
Retained earnings	10	**19,159**	26,963	**8,518**	10,097
Total Equity		**37,285**	49,013	**32,131**	32,306

8. SHARE CAPITAL

AS AT 30 JUNE	NOTE	GROUP AND PARENT 2007 $000	2006 $000
Ordinary Shares			
Balance at beginning of year		**22,209**	16,881
- Shares issued as consideration to purchase assets of Gulf Rubber (4,032,258 shares)		**–**	5,000
- Shares issued to staff under a DC11 scheme of the Income Tax Act 1994 (290,000 shares)		**–**	328
- Shares issued in lieu of dividends under the dividend reinvestment scheme (1,086,325 shares)		**1,404**	–
Total Ordinary Shares	7	**23,613**	22,209

There are 105,667,783 ordinary shares issued (2006: 104,581,458 shares).

All ordinary shares are fully paid up, have equal voting rights and share equally in dividends and surpluses on winding up.

9. RESERVES

AS AT 30 JUNE	NOTE	GROUP		PARENT	
Asset Revaluation Reserve		2007 $000	2006 $000	2007 $000	2006 $000
Balance at beginning of year		**1,242**	–	**–**	–
Revaluation of property, plant & equipment		**–**	1,242	**–**	–
Reversal of revaluation on disposal of property, plant & equipment		**60**	–	**–**	–
Total Asset Revaluation Reserve	7	**1,302**	1,242	**–**	**–**

AS AT 30 JUNE	NOTE	GROUP		PARENT	
Foreign Currency Revaluation Reserve		2007 $000	2006 $000	2007 $000	2006 $000
Balance at beginning of year		**(1,401)**	(4,575)	**–**	–
Revaluation of foreign subsidiary investments and net assets due to changes in exchange rates		**(5,388)**	3,174	**–**	–
Total Foreign Currency Revaluation Reserve	7	**(6,789)**	(1,401)	**–**	**–**

10. RETAINED EARNINGS

FOR THE YEAR ENDED 30 JUNE	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Balance at beginning of year		**26,963**	20,751	**10,097**	9,918
Net surplus attributable to the shareholders of the parent company		**637**	13,357	**105**	426
Reversal of revaluation reserve on disposal of property, plant & equipment		**(60)**	–	**–**	–
Dividends received from subsidiary companies		**–**	–	**6,700**	6,898
Interim & final dividend paid		**(8,381)**	(7,145)	**(8,384)**	(7,145)
Total Retained Earnings	7	**19,159**	26,963	**8,518**	10,097

11. RECEIVABLES AND PREPAYMENTS

AS AT 30 JUNE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Trade receivables	**41,288**	35,449	**–**	–
Less: doubtful debt provision	**(833)**	(1,033)	**–**	–
Net trade receivables	**40,455**	34,416	**–**	–
GST recoverable	**1,158**	1,148	**–**	–
Prepayments & accrued debtors	**2,641**	2,262	**329**	54
Tax refund	**633**	–	**129**	45
Total Receivables and Prepayments	**44,887**	37,826	**458**	99

12. INVENTORIES

AS AT 30 JUNE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Raw materials	**9,424**	11,491	**–**	–
Work in progress	**4,405**	3,140	**–**	–
Finished goods	**25,415**	23,368	**–**	–
Total Inventories	**39,244**	37,999	**–**	–

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

13. CONSTRUCTION CONTRACTS IN PROGRESS

AS AT 30 JUNE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Projects in progress – at cost	**7,718**	5,008	**–**	–
Profits recognised to date	**2,415**	1,535	**–**	–
Progress claims made to date	**(10,133)**	(6,543)	**–**	–
Total Construction Contracts in Progress	**–**	–	**–**	–

14. PROPERTY, PLANT AND EQUIPMENT

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Freehold land (at cost)	**182**	184	**–**	–
Freehold buildings (at cost)	**1,851**	1,847	**–**	–
Accumulated depreciation	**(180)**	(154)	**–**	–
	1,671	1,693	**–**	–
Plant and equipment (at cost & valuation)	**43,160**	32,203	**–**	–
Accumulated depreciation	**(5,820)**	(2,202)	**–**	–
	37,340	30,001	**–**	–
Furniture, fittings and other (at cost)	**12,157**	6,405	**33**	30
Accumulated depreciation	**(3,254)**	(3,178)	**(30)**	(24)
	8,903	3,227	**3**	6
Capital expenditure in progress	**1,233**	8,514	**–**	–
Total Property, Plant and Equipment	**49,329**	43,619	**3**	6

There is no restriction on the use, disposal or legal title to, any property, plant or equipment.

Included in the Restructuring Provision is the impairment of property, plant & equipment of $10,382,408 relating mainly to manufacturing plant and equipment at the Woolston, Christchurch, site. This provision will be applied to property, plant & equipment when the assets are disposed.

Valuations of plant & equipment were undertaken on 30 June 2006 by independent valuers, Mr Alistair Thompson, BE, MAppSc, CEng, MICE, MIPENZ, and Mr Marvin Clough, BE, MNZPI, of Beca Valuation Ltd. The fair value adjustment that resulted from this valuation was $1,242,000 and was credited to the Asset Revaluation Reserve.

15. INTANGIBLES

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Balance at beginning of year	**42,808**	2,630	**–**	–
Goodwill - additions	**12,647**	39,766	**–**	–
Effect of foreign exchange	**(2,243)**	1,887	**–**	–
Amortisation	**(2,174)**	(1,475)	**–**	–
Total Intangibles	**51,038**	42,808	**–**	–

Goodwill in independent foreign owned subsidiaries is translated into NZ Dollars at balance date in line with accounting policy. The effect of the foreign exchange adjustment is noted above.

16. INVESTMENTS AND ADVANCES

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Investments in subsidiaries	**–**	–	**46,633**	46,633
Advances to subsidiaries	**–**	–	**86,121**	48,854
Total Investments and Advances	**–**	–	**132,754**	95,487

Advances to subsidiaries are unsecured and non interest bearing.

Certain advances are provided to subsidiaries as funds in lieu of capital.

The movement in advances to subsidiaries differs from that disclosed in the Statement of Cash Flows due to transactions of a non cash nature.

16. INVESTMENTS AND ADVANCES CONTINUED

SIGNIFICANT SUBSIDIARIES	PERCENT HELD 2007	2006	BALANCE DATE
Skellerup Industries Limited	100%	100%	30 June
Ultralon Products (NZ) Limited	100%	100%	30 June
Batavian Rubber Co Limited	100%	100%	30 June
Skellerup Footwear Limited	100%	100%	30 June
Flomax International Limited	100%	100%	30 June
*Conewango Products Corp (Incorporated in USA)	100%	100%	30 June
*Masport Inc. (Incorporated in USA)	100%	100%	30 June
*Deks Industries Pty Limited (Incorporated in Australia)	100%	100%	30 June
*Skellerup Industrial Pty Limited (Incorporated in Australia)	100%	100%	30 June
*Skellerup Rubber Products Jiangsu Limited (Incorporated in China)	100%	100%	30 June
*Stevens Filterite Limited	100%	100%	30 June
*Thorndon Rubber Co. Limited	100%	100%	30 June
*Rubber Services Limited	100%	100%	30 June
*Jenco Products Pty Limited (Incorporated in Australia)	100%	100%	30 June
*Ambic Equipment Limited (Incorporated in UK)	100%	100%	30 June
*Gulf Rubber Australia Pty Limited (Incorporated in Australia)	100%	100%	30 June
*Gulf Rubber NZ Limited	100%	100%	30 June
*Tumedei SpA (Incorporated in Italy)	100%	–	30 June

Skellerup Industries Limited is involved in the manufacture and distribution of dairy rubber products, industrial rubber products and rural supplies 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.

Batavian Rubber Co Limited is involved in the importation and distribution of latex rubber products.

Skellerup Footwear Limited is a property owning company.

Flomax International Limited is involved in the manufacture and distribution of vacuum pumps and associated equipment in New Zealand and internationally.

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

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

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

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

Skellerup Industrial Pty Limited markets and distributes rubberware to Australian mining operators.

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 performs custom rubber mixing, mouldings and roller recovery.

Jenco Products Pty Limited distributed primarily rubber components to the Australian plumbing industry.

Ambic Equipment Limited is a marketer and distributor of products for dairy cattle teat hygiene.

Gulf Rubber Australia Pty Limited and **Gulf Rubber NZ Limited** are involved in the design and manufacture of highly technical rubber and associated polymer products.

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

17. ACQUISITION OF BUSINESS ASSETS AND LIABILITIES

Included in the financial statements of the Group for the year ending 30 June 2007 is the effect of acquiring the shares of Tumedei SpA in May 2007. This company is incorporated in Italy. A new special purpose company, Skellerup Italy Srl, was incorporated in Italy to acquire the shares in Tumedei SpA. It is planned to amalgamate these two Italian companies in the new financial year.

The fair value of the assets and liabilities acquired are as follows:

CONSIDERATION	2007 $000	2006 $000
Shares	**–**	5,000
Deferred settlement	**–**	6,400
Cash	**13,632**	35,644
Total consideration	**13,632**	47,044
Net assets acquired:		
- Goodwill	**12,647**	39,766
- Current assets	**2,769**	10,227
- Current liabilities	**(4,098)**	(7,536)
- Non current assets	**651**	–
- Property, plant & equipment	**1,663**	4,587
Total Net Assets	**13,632**	**47,044**

The deferred settlement of $6,400,000 which was accrued in the 2006 year and paid in February 2007, relates to the unpaid balance on the acquisition of Gulf Rubber Australia Pty Limited and Gulf Rubber NZ Limited. The Statement of Cashflows discloses $20,032,000 outflow for acquisition of business assets and liabilities, since this includes, in addition to the Tumedei SpA net assets, the deferred settlement relating to the Gulf Rubber Australia Pty Limited and Gulf Rubber NZ Limited acquisition.

There was no divestment of assets and liabilities in the 2007 year (2006, Nil).

In the previous year, the Group acquired the business assets of Thorndon Rubber Co. Limited (July 2005), Rubber Services Limited (August 2005), Gulf Rubber Australia Pty Limited (February 2006) and Gulf Rubber NZ Limited (February 2006). In addition, all the shares were acquired in Jenco Products Pty Limited (August 2005) and Ambic Equipment Limited (August 2005).

Since acquiring Jenco Products Pty Limited, the business assets and liabilities of this company have been amalgamated with Deks Industries Pty Limited.

18. BANK OVERDRAFT

AS AT 30 JUNE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Bank Overdraft	**–**	–	**547**	–

The Group has a bank overdraft facility and is subject to a deed of charge and guarantee in favour of the Group's bankers. The average interest rate during the 2007 year was 11.2% per annum inclusive of fees and margins applied by the Group's bankers (2006: 10.7% per annum).

Group and subsidiary bank accounts within New Zealand and Australia, operated within the overall bank facility, have a right of set-off. Bank accounts held by subsidiaries in United States of America, Italy, China and the United Kingdom total NZ$5,915,000 in funds (2006: NZ$4,134,000) and are outside the right of set-off.

19. PAYABLES

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Current				
Accounts payable - trade	**13,034**	10,873	**–**	–
Sundry payables and accruals	**10,853**	10,338	**1,493**	1,114
Deferred settlement	**–**	6,400	**–**	–
Employee entitlements	**5,810**	4,625	**89**	95
GST payable	**1,247**	1,095	**986**	776
Tax payable	**–**	1,925	**–**	–
Warranty provision	**1,634**	1,017	**–**	–
Restructuring provision	**16,812**	–	**–**	–
Total Payables	**49,390**	36,273	**2,568**	1,985

Warranty Provision				
Balance at beginning of year	**1,017**	1,048	**–**	–
Expenses incurred under warranty claims	**(187)**	(97)	**–**	–
Provisions made during the year	**804**	66	**–**	–
Total Warranty Provision	**1,634**	1,017	**–**	–

The Warranty Provision covers product performance obligations provided at the time of sale, under the company's terms and conditions of sale. Future claims against the Warranty Provision will be made when any claim is identified. No major claim is known to exist at 30 June 2007.

Restructuring Provision				
Balance at beginning of year	**–**	–	**–**	–
Provisions made in current period	**17,914**	–	**350**	–
Expenses incurred	**(1,102)**	–	**(350)**	–
Total Restructuring Provision	**16,812**	–	**–**	–

The Restructuring Provision has been established primarily to provide for the change in business strategy to outsource the procurement of products which have traditionally been manufactured on plant & equipment at the Woolston, Christchurch, site.

The Restructuring Provision consists of:				
- Property, plant & equipment impairment	**10,382**	–	**–**	–
- Employment benefit provisions	**4,811**	–	**–**	–
- Inventory write Off	**820**	–	**–**	–
- Other costs	**799**	–	**–**	–
	16,812	–	**–**	–

20. TERM LIABILITIES

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Bank loans (secured)	**116,756**	87,362	**98,000**	66,000
Less current portion	**55,000**	–	**55,000**	–
Total Term Liabilities	**61,756**	87,362	**43,000**	66,000

Since balance date, a new agreement has been entered into with respect to the $55,000,000 maturing in the next 12 months. The new facility, which provides for an aggregate total facility of $125,000,000, requires amortisation of $7,500,000 in December 2007, and the remaining facility maturing in three tranches, two of which totalling $47,500,000 mature in July 2008, and the remaining tranch of $70,000,000 matures in July 2010. The bank loan is secured by floating charges and guarantees over the assets of the Company and the Group. As at June 2007 the bank loan is under a revolving credit facility. The interest rate is floating and set by reference to benchmark interest rates and includes a margin agreed between the Company and its bank. During the period the average rate was 8.62% per annum (2006: 7.37% per annum).

21. CONTINGENT LIABILITIES

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Bank guarantee	**660**	277	**75**	75
Letters of credit	**239**	2,492	**–**	–
Total Contingent Liabilities	**899**	2,769	**75**	75

Indemnities are provided for product performance and to the New Zealand Exchange.

The Letters of Credit are provided to foreign suppliers under our Group banking facility, as a guarantee that payment obligations for imported products purchased under normal terms and conditions, will be met at a future date.

22. COMMITMENTS

A. Capital Expenditure Commitments

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Estimated Capital Expenditure Committed But Not Provided For	**484**	6,538	**–**	–

B. Operating Lease Commitments

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Lease commitments under non cancellable operating leases:				
- Not later than one year	**3,471**	3,652	**–**	–
- Later than one year and not later than two years	**2,617**	1,838	**–**	–
- Later than two years and not later than five years	**2,803**	3,594	**–**	–
- Later than five years	**–**	–	**–**	–
Total Operating Lease Commitments	**8,891**	9,084	**–**	–

All major operating leases provide for a right of renewal.

23. TRANSACTIONS WITH RELATED PARTIES

Mr Young, deputy chairman, is a partner at Chapman Tripp, the parent company's legal advisors. Chapman Tripp have received fees during the year amounting to $35,164 (2006, $149,424). The fees were charged on normal terms and conditions. An additional amount of $32,262 is recorded as a current liability in the financial statements as an amount outstanding relating to other transactions.

No related party debts have been forgiven or written off during the year.

The Parent company receives dividends and management fees from its subsidiaries. Other than disclosed elsewhere, there have been no other related party transactions.

24. EARNINGS PER SHARE

FOR THE YEAR ENDED 30 JUNE	GROUP	
	2007	2006
Earnings Per Share (cents)	**0.603**	12.772

Earnings per share is based on the total number of ordinary shares issued and the net after tax operating surplus attributable to the shareholders for the year ended 30 June 2007.

25. FINANCIAL INSTRUMENTS CREDIT RISK

CREDIT RISK

Financial instruments, which potentially subject the Group to credit risk, principally consist of bank balances, receivables and forward exchange contracts.

The Group has a credit policy that is used to manage its exposure to credit risk. As part of this policy, limits on exposures with counter parties are monitored on a regular basis.

25. FINANCIAL INSTRUMENTS CREDIT RISK CONTINUED

The Group policy is to perform credit evaluations on all customers requiring credit but generally does not require overall collateral. Where necessary customers are registered on the Personal Property Securities Register to record the priority status of the security interest in the goods supplied on credit.

The Group continuously monitors the credit quality of major financial institutions that are counter parties to its off-balance sheet financial instruments and does not anticipate non-performance by the counter parties. The Group further minimises its credit exposure by limiting the amount of surplus funds placed with any one financial institution at any one time. Group and subsidiary bank accounts operated within the overall bank facility have a right of set off within Australia and New Zealand.

Maximum exposures to credit risk as at balance date are:

AS AT 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Bank balances	**10,631**	10,396	-	4,699
Receivables	**44,887**	37,826	**458**	99
Foreign exchange contracts				
- Sell foreign currency	**–**	953	–	953
- Buy foreign currency	**1,425**	5,386	**1,324**	5,386
Foreign exchange options				
- call options payable	**134**	64	**–**	64
Interest rate swaps				
- amount receivable	**2,134**	474	**2,134**	474

CONCENTRATION OF CREDIT RISK

Concentration of credit risk with respect to trade receivables is limited by a diversified customer base.

CURRENCY RISK

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies arising from normal trading activities. Where exposures are certain, or able to be forecasted with reasonable accuracy, it is the Group's policy to hedge these risks as they arise.

The Group uses foreign exchange forward contracts to manage these exposures. At balance date the Group had entered into foreign exchange forward contracts maturing over the years ending 30 June 2008 and 30 June 2009 to purchase the net equivalent of NZ$20,689,057 in foreign currency and to sell the net equivalent of NZ$15,914,117 of foreign currency. At the previous year end, NZ$49,394,543 was held in purchase foreign currency contracts and NZ$6,134,394 was held in sell foreign currency contracts.

UNHEDGED FOREIGN CURRENCY MONETARY ASSETS AND LIABILITIES

Unhedged foreign currency monetary assets less liabilities are NZ$15,180,000 (2006: NZ$8,629,000). These net assets consist primarily of trade receivables, trade creditors and cash as follows:

AS AT 30 JUNE	2007			2006		
	CURRENT ASSETS	CURRENT LIABILITIES	NET MONETARY ASSETS	CURRENT ASSETS	CURRENT LIABILITIES	NET MONETARY ASSETS
USD	**4,605**	**2,423**	**2,182**	4,182	3,766	416
AUD	**11,568**	**4,745**	**6,823**	9,881	5,133	4,748
CNY	**13,887**	**2,563**	**11,324**	6,487	1,879	4,608
GBP	**789**	**226**	**563**	596	197	399
EUR	**2,221**	**1,396**	**825**	–	–	–
NZD equivalent of above currencies						
NZD	**27,016**	**11,836**	**15,180**	22,051	13,422	8,629

INTEREST RATE RISK

The Group is exposed to interest rate risk on its borrowings. The Parent company operates a centralised Group Treasury that uses financial instruments to actively manage these risks in accordance with the Group's policies.

CREDIT FACILITIES

As at 30 June 2007 the Group had total credit facilities of $130.967 million (2006: $97.976 million). Under these facilities, loans of NZD 98 million, AUD 4.82 million and GBP 3.9 million have been drawn at 30 June 2007 as well as an overdraft facility of $1 million is available under this overall facility.

Also, an AUD 4.47 million combined term loan and overdraft facility has been provided for the Australian operations of which an AUD 3.0 million term loan has been drawn at 30 June 2007. An overdraft of AUD 1.05 million is also available under this facility.

As at 30 June 2007, the amount of $55,000,000 was maturing within the next 12 months. However, since balance date a new facility has been agreed which provides for the amortisation of $7,500,000 in December 2007, and the remaining total facility maturing in three tranches, two of which total $47,500,000 mature in July 2008 and the remaining tranch of $70,000,000 maturing in July 2010. An overdraft facility of $1 million is also available under this facility.

The total facility remains unchanged under the new agreement.

25. FINANCIAL INSTRUMENTS CREDIT RISK CONTINUED

FAIR VALUES

The estimated fair values of the financial instruments are as follows:

AS AT 30 JUNE	GROUP				PARENT			
	CARRYING AMOUNT 2007 $000	FAIR VALUE 2007 $000	CARRYING AMOUNT 2006 $000	FAIR VALUE 2006 $000	CARRYING AMOUNT 2007 $000	FAIR VALUE 2007 $000	CARRYING AMOUNT 2006 $000	FAIR VALUE 2006 $000
NZD term loan	**(98,000)**	**(98,000)**	(66,000)	(66,000)	**(98,000)**	**(98,000)**	(66,000)	(66,000)
AUD term loans	**(8,605)**	**(8,605)**	(9,537)	(9,537)	**–**	**–**	–	–
GBP term loan	**(10,151)**	**(10,151)**	(11,825)	(11,825)	**–**	**–**	–	–
Foreign exchange contracts	**–**	**932**	–	6,339	**–**	**830**	–	6,339
Foreign exchange options	**–**	**134**	–	64	**–**	**–**	–	64
Interest rate swaps	**–**	**2,134**	–	474	**–**	**2,134**	–	474

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Term Liabilities (Term Loan)

The fair value of the Company's term liabilities is estimated based on the current market rates available to the company for items of a similar nature and maturity.

Interest Rate Contracts (Forward Rate Agreements, Options and Swaps)

The fair value of these financial instruments is current market valuation (cash settlement requirement) provided by Skellerup Holdings Group's bankers.

Cash, Receivables, Bank Overdraft and Current Liabilities

The carrying value is the fair value for each of these classes of financial instruments and accordingly they are excluded from the above table.

Foreign Currency Contracts (Forward Exchange Contracts and Options)

The fair value of these financial instruments is based on the quoted market prices of comparable financial instruments.

RE-PRICING ANALYSIS

The following table identifies the periods in which the financial instruments, that are subject to interest rate risk, re-price.

AS AT 30 JUNE 2007	EFFECTIVE INTEREST RATE	TOTAL $000	6 MONTHS OR LESS NZD000	BETWEEN 6-12 MONTHS NZD000	BETWEEN 1-2 YEARS NZD000	BETWEEN 2-5 YEARS NZD000	GREATER 5 YEARS NZD000
NZD bank loan	8.62%	NZD 98,000	98,000	–	–	–	–
AUD bank loan	6.81%	AUD 3,570	3,928	–	–	–	–
AUD bank loan	6.58%	AUD 1,250	1,376	–	–	–	–
AUD bank loan	7.39%	AUD 3,000	3,301	–	–	–	–
GBP bank loan	6.20%	GBP 3,900	10,151	–	–	–	–
Total Liabilities			116,756	–	–	–	–
Less cash		NZD 10,631	10,631	–	–	–	–
Net Total			**106,125**	**–**	**–**	**–**	**–**

AS AT 30 JUNE 2006	EFFECTIVE INTEREST RATE	TOTAL $000	6 MONTHS OR LESS NZD000	BETWEEN 6-12 MONTHS NZD000	BETWEEN 1-2 YEARS NZD000	BETWEEN 2-5 YEARS NZD000	GREATER 5 YEARS NZD000
NZD bank loan	7.37%	NZD 66,000	66,000	–	–	–	–
AUD bank loan	6.10%	AUD 3,570	4,354	–	–	–	–
AUD bank loan	6.18%	AUD 1,250	1,524	–	–	–	–
AUD bank loan	7.15%	AUD 3,000	3,659	–	–	–	–
GBP bank loan	4.96%	GBP 3,900	11,825	–	–	–	–
Total Liabilities			87,362	–	–	–	–
Less cash		NZD 10,396	10,396	–	–	–	–
Net Total			**76,966**	**–**	**–**	**–**	**–**

25. FINANCIAL INSTRUMENTS CREDIT RISK CONTINUED

The Group also has a series of interest rate swaps which give the Group the ability to convert from a floating rate of interest to a fixed rate of interest. Interest rate swaps held as at 30 June 2007 are as follows:

PRINCIPAL	MATURITY DATE	INTEREST RATE
GBP 3.9 million	4 July 2007 (since completed)	5.01%
AUD 4.0 million	4 July 2008	6.14%
NZD 35 million	25 September 2008	6.41%
NZD 35 million	30 December 2008	7.68%
NZD 28 million	30 December 2010	6.15%

Interest rate swaps held as at 30 June 2006 were:

PRINCIPAL	MATURITY DATE	INTEREST RATE
NZD 35 million	25 September 2008	6.41%
NZD 28 million	29 March 2011	6.76%

The above interest rate options have not been included in the re-pricing table shown above.

26. RECONCILIATION OF NET SURPLUS AFTER TAX WITH CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

FOR THE YEAR ENDED 30 JUNE	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Reported surplus after tax:	**637**	13,357	**6,805**	7,326
Non cash items and non operating items:				
- depreciation	**5,125**	4,216	**6**	7
- amortisation of goodwill	**2,174**	1,475	**–**	–
- movement in provisions	**11,844**	3,938	**(6)**	20
- bad debts written off	**27**	137	**–**	–
- loss on sale of assets	**74**	126	**–**	–
- revaluation of foreign currency working capital values due to movement in exchange rates	**2,964**	946	**–**	–
- movement in deferred tax recognised in financial statements	**(8,302)**	–	**(31)**	–
Net movement in working capital	**(6,813)**	(12,601)	**229**	607
Net Cash Inflow/(Outflow) From Operating Activities	**7,730**	11,594	**7,003**	7,960

27. SEGMENT INFORMATION

The Group operated in two industry segments and two geographical segments in the year ended 30 June 2007.

A. Industry Segments

FOR THE YEAR ENDED 30 JUNE	2007				2006			
	AGRI $000	INDUSTRIAL $000	ELIMINATION $000	CONSOLIDATED $000	AGRI $000	INDUSTRIAL $000	ELIMINATION $000	CONSOLIDATED $000
Sales to customers	**56,840**	**136,524**	**–**	**193,364**	55,220	103,855	–	159,075
Intersegment sales	**10,790**	**25,444**	**(36,234)**	**–**	11,523	29,996	(41,519)	–
Unallocated revenue	**–**	**–**	**–**	**506**	–	–	–	319
Total Revenue	**67,630**	**161,968**	**(36,234)**	**193,870**	66,743	133,851	(41,519)	159,394
Segment result	**10,472**	**14,601**	**–**	**25,073**	14,135	13,754	–	27,889
Restructuring costs	**–**	**–**	**–**	**(17,914)**	–	–	–	–
Unallocated expense & tax	**–**	**–**	**–**	**(6,522)**	–	–	–	(14,532)
Net Surplus	**10,472**	**14,601**	**–**	**637**	14,135	13,754	–	13,357
Segment assets	**56,455**	**126,431**	**–**	**182,886**	49,142	111,213	–	160,355
Unallocated	**–**	**–**	**–**	**20,545**	–	–	–	12,293
Total Assets	**56,455**	**126,431**	**–**	**203,431**	49,142	111,213	–	172,648

The Agri segment manufactures and distributes dairy rubberware, related rural products and dairy vacuum equipment for the global agricultural market.

The Industrial segment manufactures and distributes industrial rubber and related polymer components together with industrial vacuum equipment for a variety of industrial applications worldwide.

B. Geographical Segments

FOR THE YEAR ENDED 30 JUNE	2007				2006			
	INSIDE NZ $000	OUTSIDE NZ $000	ELIMINATION $000	CONSOLIDATED $000	INSIDE NZ $000	OUTSIDE NZ $000	ELIMINATION $000	CONSOLIDATED $000
Sales to customers	**91,640**	**101,724**	**–**	**193,364**	81,761	77,314	–	159,075
Intersegment sales	**28,922**	**7,312**	**(36,234)**	**–**	36,501	5,018	(41,519)	–
Unallocated revenue	**–**	**–**	**–**	**506**	–	–	–	319
Total Revenue	**120,562**	**109,036**	**(36,234)**	**193,870**	118,262	82,332	(41,519)	159,394
Segment result	**15,466**	**9,607**	**–**	**25,073**	21,549	6,340	–	27,889
Restructuring costs	**–**	**–**	**–**	**(17,914)**	–	–	–	–
Unallocated expense & tax	**–**	**–**	**–**	**(6,522)**	–	–	–	(14,532)
Net Surplus	**15,466**	**9,607**	**–**	**637**	21,549	6,340	–	13,357
Segment assets	**92,707**	**90,179**	**–**	**182,886**	76,962	83,393	–	160,355
Unallocated assets	**–**	**–**	**–**	**20,545**	–	–	–	12,293
Total Assets	**92,707**	**90,179**	**–**	**203,431**	76,962	83,393	–	172,648

The majority of the Group's trading is within New Zealand. The Group's operations outside New Zealand are predominantly in Australia, United States, China, Italy and United Kingdom.

Intersegment pricing is agreed by negotiation between operating segments. Normal terms and conditions of sale apply to such transactions.

28. SHARE OPTION SCHEMES

On 17 May 2002 a resolution was passed to establish a non executive director's option scheme (Directors Option Scheme 2002) and a Senior Management Option Scheme (Senior Management Option Scheme 2002). The details of both schemes are identical.

The options to subscribe for ordinary shares are non transferable. No amount was payable on the granting of the options and the exercise price for each option under the scheme is $1.15 per share increasing by 15% compounding on the anniversary in each year commencing on 26 September 2004, adjusted for dividends paid.

Each option will entitle the non executive Directors or Senior Managers to subscribe for one share. Subject to insider trading legislation and any other applicable laws, one third of the options will become exercisable on the first, second and third anniversaries (each a "vesting date") of 26 September 2002. The exercise price for options exercised prior to the second vesting date is $1.32 per share, for options exercised prior to the third vesting date is $1.52 per share and for options exercised thereafter is $1.75 per share, such exercise price in all cases will be adjusted by subtracting the cash amount of any dividends paid by the Company on its ordinary shares by reference to a record date which occurs during the period from 26 June 2002 to the date of exercise of the relevant options.

A non executive Director's and Senior Manager's options will normally lapse on the date which is three months from the date on which the non executive Director ceases to be a Director or the Senior Manager ceases to be an employee of the Company. The expiry date of the options is 5 years from the date of issue, being 26 June 2007. The ordinary shares issued following the exercise of the options will rank equally with the other ordinary shares, including the shares.

During the 2005 year, the management options on issue increased by 250,000 to a total of 2,250,000. There have been no changes to the number of options issued during the 2007 year.

	NUMBER OF SHARE OPTIONS		
ISSUE DATE	**DIRECTORS' OPTIONS**	**MANAGEMENT OPTIONS**	**TOTAL**
26 June 2002	1,000,000	2,250,000	3,250,000
Commencing Exercise Dates			
26 September 2003	333,333	750,000	1,083,333
26 September 2004	333,333	750,000	1,083,333
26 September 2005	333,334	750,000	1,083,334
	1,000,000	**2,250,000**	**3,250,000**

Options allocated under the Directors' Option Scheme 2002 are as follows:

Keith Smith	200,000
Arthur Young	200,000
Elizabeth Coutts	200,000
Leigh Davis	200,000
Graham Fraser	200,000

Options issued to senior managers under the Senior Management Option Scheme include 450,000 to Mr Donald Stewart, an Executive Director of the Company.

All the share options expired on 26 June 2007 and during the entire 5-year period, no options were exercised.

29. EMPLOYEE SHARE PURCHASE SCHEME

On 31 March 2006 the company issued shares under the Employee Share Ownership Plan which entitled employees to purchase up to 2,000 shares at $1.13 per share.

The share purchase scheme conforms with the provisions of Section DC11 of the Income Tax Act 1994, whereby the company provides an interest-free loan to employees to purchase the shares, with repayment of the loan required over a maximum of three years.

As a result of this offer to employees, 290,000 shares were issued at $1.13 per share on 31 March 2006 representing 0.277% of the total ordinary shares of the company. At 30 June 2007 the outstanding loan to employees was $167,672 (2006, $284,838) and is repayable within three years of the shares being issued. The shares issued to employees are held in trust by the Skellerup Holdings Employee Share Trustee Company Ltd for a period of three years from date of issue.

The shares are eligible to participate in dividends which are payable to the employee, but all voting rights, which are the same as ordinary shares, remain with the trustee company during this restrictive period.

The directors of the trustee company are appointed and removed according to its constitution. Currently, the directors are Keith Smith, Arthur Young and Donald Stewart.

30. SIGNIFICANT EVENTS AFTER BALANCE DATE

Apart from the new banking agreement as per Notes 20 and 25, there are no events subsequent to balance date that are required to be disclosed.

31. IMPACT OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of the New Zealand equivalent of International Financial Reporting Standards may result in changes to accounting policies which will have an impact on the reported financial position and financial performance of the Group.

An impact assessment has been undertaken to identify accounting policies which will result in a change in the reported financial performance and financial position of the Group.

Although the quantification of the changes cannot be reliably estimated at this time, we have determined that accounting for the following under IFRS Standards is likely to result in a change in the reported result of the Group.

The areas which will have an impact are as follows:

- Goodwill - Amortisation of Goodwill and impairment testing Goodwill.
- Employee Benefits - Recognising additional accrued liabilities.
- Insurance Contracts - Recording additional obligations under the ACC partnership program.
- Deferred Tax - Changes to the method of determining deferred tax and recognising deferred tax benefits and liabilities in the Statement of Financial Position.
- Financial Instruments - Complying with new standards for recording of hedged and unhedged instruments and recording fair values of such instruments through Statement of Financial Performance and Statement of Financial Position.

The actual areas impacted by NZIFRS may differ from those noted above.

In preparation for the adoption of the International Financial Reporting Standards, accounting policies which are directly impacted by the above areas, have been redrafted and are currently under review by the Board.

DIRECTORS

A. Directors Holding Office During the Year

Keith Smith	(Independent Director)
Elizabeth Coutts	(Independent Director)
Leigh Davis	(Independent Director)
Graham Fraser	(Independent Director)
David Mair	(Independent Director)
Donald Stewart	(Executive Director)
Arthur Young	(Independent Director)

B. Remuneration of Directors

FOR THE YEAR ENDED 30 JUNE	GROUP 2007 $000	PARENT 2007 $000	GROUP 2006 $000	PARENT 2006 $000
Keith Smith	**88**	**88**	80	80
Elizabeth Coutts	**57**	**57**	50	50
Leigh Davis	**54**	**54**	50	50
Graham Fraser	**54**	**54**	50	50
Donald Stewart	**558**	**558**	552	552
Arthur Young	**57**	**57**	50	50
David Mair	**32**	**32**	–	–
	900	**900**	832	832

EMPLOYEE REMUNERATION

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

REMUNERATION RANGE	NUMBER OF EMPLOYEES	REMUNERATION RANGE	NUMBER OF EMPLOYEES
$100K–$110K	18	$200K–$210K	2
$110K–$120K	8	$220K–$230K	3
$120K–$130K	7	$240K–$250K	1
$130K–$140K	9	$250K–$260K	3
$140K–$150K	1	$280K–$290K	3
$150K–$160K	6	$350K–$360K	1
$160K–$170K	2	$450K–$460K	1
$170K–$180K	2	$550K–$560K	1
$180K–$190K	3	$750K–$760K	1

The above includes salaries, benefits and performance based incentive payments. Executives based in the United States of America, Australia and United Kingdom have been included in equivalent NZ dollars based on the exchange rates ruling at 30 June 2007.

STATEMENT OF DIRECTORS' SHAREHOLDINGS

A. Directors held the following equity securities in the Company:

	HELD NON BENEFICIALLY & BY RELATED PARTIES 30 JUNE 2007	HELD BENEFICIALLY 30 JUNE 2007	HELD BY ASSOCIATED PERSONS 30 JUNE 2007
Keith Smith	100,000	25,000	5,000
Arthur Young	–	–	53,124
Elizabeth Coutts	–	–	130,000
Leigh Davis	–	–	25,000
Graham Fraser	–	–	41,596
Donald Stewart	–	212,496	270,931
David Mair	–	–	–

B. During the year the following directors acquired or disposed of equity securities in the Company:

	NUMBER OF SHARES ACQUIRED	CLASS OF SHARES SHARES	CONSIDERATION PAID	DATE OF TRANSACTION
Elizabeth Coutts	10,000	Ordinary	14,725	28 Sep 06
	30,000	Ordinary	44,167	3 Oct 06
	20,000	Ordinary	25,050	21 Feb 07
	10,000	Ordinary	12,500	6 Mar 07
Donald Stewart	15,924	Ordinary	22,750	18 Oct 06
	12,503	Ordinary	14,128	26 Apr 07
Arthur Young	1,750	Ordinary	2,500	18 Oct 06
	1,374	Ordinary	1,552	26 Apr 07
Keith Smith	25,000	Ordinary	Legacy	22 Aug 06

SHAREHOLDER INFORMATION

SUBSTANTIAL SECURITY HOLDERS

Pursuant to Section 26 of the Securities Amendment Act 1988, the substantial security holders as at 8 August 2007 were as follows:

	ORDINARY SHARES
AMP Capital Investors Limited	10,458,755 (9.90%)

PRINCIPAL SHAREHOLDERS

The names and holdings of the twenty largest registered shareholders as at 8 August 2007 were:

HOLDER	ORDINARY SHARES	%
AMP Capital Investors Limited	10,458,755	9.90
Hendry Nominees Limited	4,442,148	4.20
Thompson Trustees Limited	4,032,258	3.82
Accident Compensation Corporation	3,307,334	3.13
Custodial Services Limited	3,175,387	3.00
Gallagher Holdings Limited	2,917,926	2.76
NZ Superannuation Fund Nominees Limited	2,511,596	2.38
H & G Limited	1,960,000	1.86
ABNED Nominees Limited	1,946,000	1.84
PH and JA Masfen	1,889,725	1.79
New Plymouth District Council	1,592,215	1.51
Investment Custodial Services Limited	1,308,639	1.24
Tepler Nominees Limited	1,284,281	1.22
Asset Custodian Nominees Limited	1,138,014	1.08
National Nominees New Zealand Limited	1,059,114	1.00
FNZ Custodians Limited	1,031,353	0.98
Rotorua Trust Perpetual Capital Fund Limited	1,000,000	0.95
Forsyth Barr Custodians Limited	958,639	0.91
Leveraged Equities Finance Limited	493,709	0.47
Citibank Nominees (New Zealand) Limited	446,442	0.42

As at 8 August 2007, Skellerup Holdings Limited had 105,667,783 fully paid ordinary shares on issue.

DISTRIBUTION OF SHAREHOLDING AS AT 8 AUGUST 2007

SIZE OF SHAREHOLDING	TOTAL SHARES HELD %
1 – 4,999	5.65
5,000 - 9,999	8.65
10,000 - 49,999	28.47
50,000 - 99,999	6.13
100,000 - 499,999	11.02
500,000 - 999,999	3.44
1,000,000 and over	36.64
	100.00

PRINCIPAL ACTIVITIES

The principal activity of the Skellerup Holdings Group involves the marketing, manufacturing and distribution of dairy rubber products, industrial polymer products, vacuum pumps and rural supplies to markets in New Zealand and internationally.

NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual Meeting of Shareholders of Skellerup Holdings Limited will be held at the Ellerslie Convention Centre, Ellerslie Racecourse, 80-100 Ascot Avenue, Auckland on Wednesday, 26 September 2007 at 2.30 p.m.

BUSINESS

1. To receive and consider the annual report, the financial statements for the year ended 30 June 2007, and the report of the auditors thereon.
2. To elect two directors.

   In accordance with Clause 26.1 of the Company's Constitution Mr Graham Fraser retires by rotation and, being eligible, offers himself for re-election.

   Mr Leigh Davis also retires by rotation in accordance with Clause 26.1 of the Company's Constitution but has chosen not to seek re-election.

   In accordance with Clause 25.2 of the Company's Constitution Mr David Mair, who was appointed to the Board of the Company since the last Annual Meeting, also retires and being eligible offers himself for election to the Board.

   The board has determined that Messrs Fraser and Mair are independent directors, in terms of the NZSX Listing Rules.
3. To authorise the directors to fix the remuneration of the auditor for the ensuing year.

PROXIES

Any member 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

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, 27 August 2007

DIRECTORY

REGISTERED OFFICE

Skellerup Holdings Limited
1-37 Mt Wellington Highway
Mt Wellington

PO Box 14-537
Panmure, Auckland 1741
New Zealand

Telephone: +64 9 571 1208
Facsimile: +64 9 571 5896
Email: info@skellerupholdings.co.nz
Website: www.skellerupholdings.co.nz

BOARD OF DIRECTORS

K. R. Smith B.Com, F.C.A.
CHAIRMAN

A. W. Young LLB
DEPUTY CHAIRMAN

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

L. R. Davis M.A. (Hons)

G. A. Fraser B.Com

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

D. J. Stewart B.Com
MANAGING DIRECTOR

MANAGEMENT

D. J. Stewart B.Com
MANAGING DIRECTOR

N. A. Campbell M.Com, C.A.
CHIEF FINANCIAL OFFICER

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

AUDITOR

Ernst & Young
41 Shortland Street
Auckland
New Zealand

LEGAL ADVISORS

Chapman Tripp
23-29 Albert Street
Auckland
New Zealand

BANKERS

ANZ National Bank Limited
23-29 Albert Street
Auckland
New Zealand

SHARE REGISTRAR

Computershare Investor
Services Limited
Level 2, 159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1020
New Zealand
Telephone: +64 9 488 8777

SECURITY HOLDER ENQUIRIES

Shareholders with enquiries about transactions, change of address or dividend payments should contact the Share Registrar.

DESIGNED AND PRODUCED BY IMAGINATION

REGISTERED OFFICE

Skellerup Holdings Limited
1-37 Mt Wellington Highway
Mt Wellington

PO Box 14-537
Panmure, Auckland 1741
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