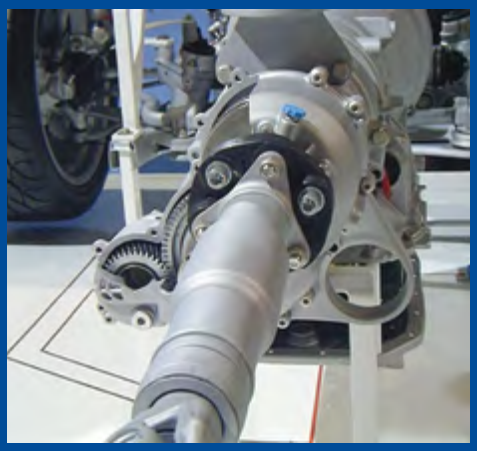
SKELLERUP



# Annual Report **2016**

Tony Price with Geoff Harnett at the Woolston Distribution Centre soon after the 22 February 2011 Christchurch earthquake. Image and article courtesy of *The Press* – Christchurch. Originally published 4 March 2011.

**Engineer Geoff Harnett** had been working on a nursery in Amberley when the earthquake hit on 22 February 2011.

He brought his digger into Christchurch to help people clear piles of silt and mud from their properties.

Geoff was helping a man clear silt from his property in Woolston when Skellerup engineering manager Nick Steel drove past and recognised Harnett, as the two had previously worked together.

Nick stopped and Geoff volunteered to clear silt blocking the driveway of Skellerup's distribution centre.

Geoff and about eight of his staff then helped weld braces in the warehouses and repair fallen racks.

''Geoff asked Nick 'What else can I do?'''

''It's that kind of connection that's going to fix Christchurch,'' Skellerup acting chief executive David Mair said.

David said while services that had previously been operating in the CBD had been able to relocate and get up and running, there had been little news of manufacturers being able to do the same.

Damage to the warehouse had been relatively light, and Geoff's help had enabled Skellerup to ensure uninterrupted supply to its customers, David said.

Geoff had done the work voluntarily but David said he would make sure Geoff was compensated.

Skellerup has received engineering approval for essential trading, including its warehouse and primary processing.

''Through people like Geoff, we are back on our feet even faster than we had any hope of being,'' David said.

''I'm in awe of these people.''

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Warehouse team leader Tony Price with Geoff Harnett in the new Skellerup Distribution Centre at Wigram. Geoff is now Engineering Manager.

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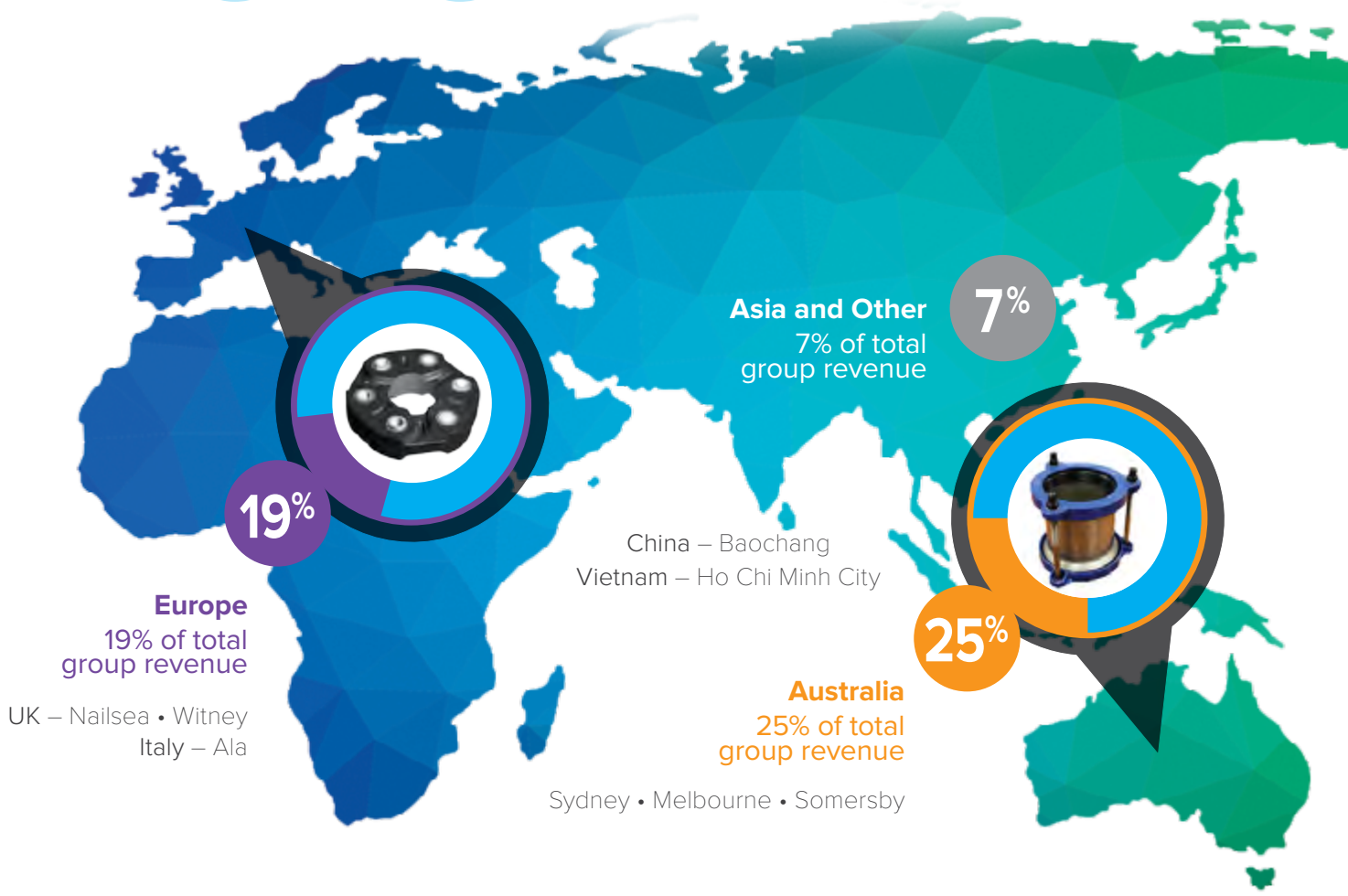
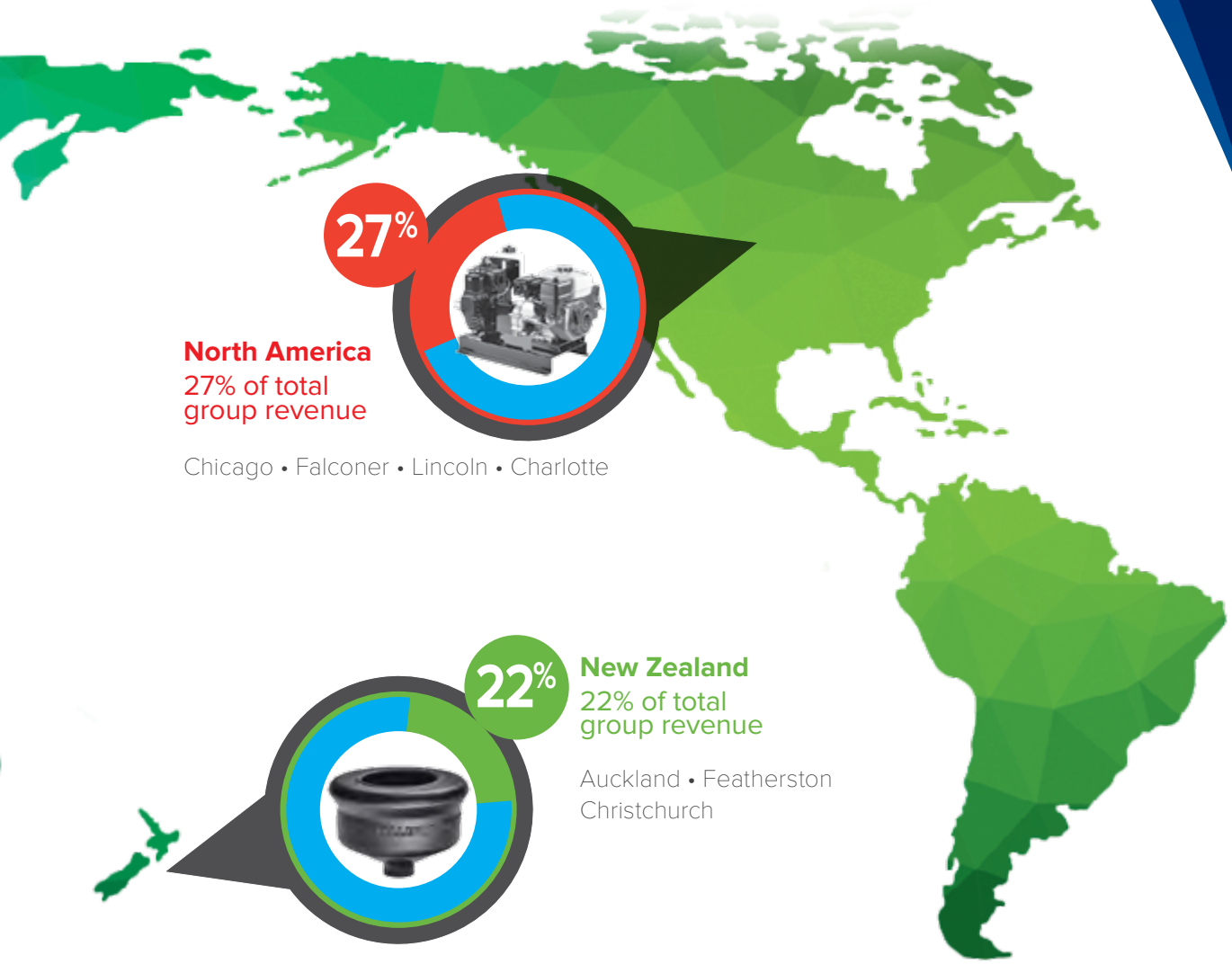
# Highlights




## Year-on-year comparative table (NZ $000)

| Period Ending | 30/06/2016 | 30/06/2015 | 30/06/2014 | 30/06/2013 | 30/06/2012 |
|---|---|---|---|---|---|
| Total Revenue | 211,415 | 203,011 | 196,606 | 189,496 | 207,313 |
| EBIT (before Canterbury EQs) | 29,510 | 31,119 | 29,935 | 27,775 | 36,594 |
| Finance Costs | 411 | 163 | 733 | 1,144 | 2,101 |
| Profit before Tax and Canterbury EQs | 29,099 | 30,956 | 29,202 | 26,631 | 34,493 |
| Canterbury EQs Pre-Tax Income (Expense) | (145) | – | 19,844 | – | 401 |
| Tax | 8,429 | 9,023 | 7,952 | 7,595 | 10,229 |
| Net Profit After Tax | 20,525 | 21,933 | 41,094 | 19,036 | 24,665 |
| EPS (c)* | 10.7 | 11.4 | 10.8 | 9.9 | 12.6 |
| Dividend (c) | 9.0 | 9.0 | 8.5 | 8.0 | 8.0 |
| Operating Cash Flow | 30,939 | 17,802 | 50,976 | 26,084 | 25,330 |
| Cash Reserves (Net Debt) | (26,903) | 830 | 16,345 | (2,166) | (4,253) |
| Total Assets | 228,004 | 211,631 | 185,624 | 184,132 | 174,762 |
| Total Liabilities | 72,149 | 51,971 | 40,933 | 59,459 | 53,390 |
| Net Assets | 155,855 | 159,660 | 144,691 | 124,673 | 121,372 |

*excluding Canterbury EQs income (Expense).




**REVENUE**
**$211·4m**
Up $8.4m

**NPAT**
**$20·5m**
Down $1.4m

**OPERATING CASH FLOW**
**$30·9m**
Up $13.1m

**EARNINGS PER SHARE**
**10·7c**
Down 6%

**DIVIDEND**
**9·0cps**
No change

# Skellerup's financial position remains strong

**The FY16 year** included a number of notable milestones. The most significant is the completion of the base build of our new facility at Wigram, which has enabled us to commence the careful and gradual relocation of our Agri business from Woolston to Wigram. This process is being managed with great attention to detail by our team. In early November 2016 we will officially open this new facility and by early 2017 we expect our transition from Woolston to Wigram to be complete.

The Board, management and our shareholders have been, and continue to be, fortunate to have Sir Ron Carter at the helm of this very important project. Sir Ron has amassed a lifetime of experience leading large international construction projects and we have benefited from his leadership and direction for the duration of Project Viking.

Design and construction for Project Viking has been provided by Calder Stewart Industries, together with our team in Christchurch and Auckland. I am delighted with the contribution of all to date and know they are focused on safely completing the project. The key objective has been to establish a world-class facility that will enable us to provide uninterrupted supply to our customers, achieve operating efficiencies and allow our capacity to expand and to meet increased demand in the future. I am confident we will deliver on this objective.

Another notable milestone over the past 12 months has been the growth we have achieved in international markets. Revenue and earnings growth realised in the USA and Australia has been necessary to offset the impact of a smaller contribution from New Zealand which, of course, has been impacted by the reduced international milk price. Skellerup's revenue for FY16 of $211.4 million is up 4% on the prior year; we have our sights and plans set on attaining faster growth in FY17. The reduction in sales of dairy rubberware – in the New Zealand market in particular – caused a reduction in NPAT in FY16 to $20.5 million. Improved performance from our Industrial Division, which recorded a 9% improvement in EBIT to $15.3 million, provided some offset. This growth primarily came from the USA but also from Australia and Europe and is the result of a concentrated focus to broaden our customer base

**Sir Selwyn Cushing**
Skellerup Holdings Ltd
Chairman

– as well as, where appropriate, expand our range of products.

Skellerup's financial position remains strong. Sound management delivered operating cash flow of $30.9 million, up 74% on the prior year. This means that, despite our substantial investment at Wigram, we closed the year with net debt at a modest level of $26.9 million.

### Dividend

Reflective of our strong cash flow and ongoing confidence to deliver earnings growth, the Directors have maintained the final dividend at 5.5 cents per share, fully imputed. This will be paid on Thursday 13 October 2016 and brings the total dividend pay-out for the financial year ended 30 June 2016 to 9.0 cents per share.

### Concluding Comments

We expect continued improvement in earnings from our Industrial Division. We have established a stronger and more cost-competitive platform, which will yield further gains in FY17. Our investment in product development across this Division is delivering revenue growth and we have a solid pipeline of new business ahead.

The conclusion of Project Viking in FY17 will be a significant moment in the history of Skellerup as we complete the move to Wigram after 77 years at Woolston. Our focus will be on concluding this project in the careful, meticulous manner as has been achieved to date. While the international dairy market remains difficult, our ongoing focus on developing and manufacturing world-leading food-grade dairy rubberware continues to underpin the future performance of our Agri Division.

In summary, and as I noted last year, the economic environment continues to be challenging; however, the Board is confident that the plans we have, the actions undertaken over the past year and those to be taken in the next 12 months will deliver an improvement in earnings in FY17.

# Skellerup will continue to develop a global business that embodies the best aspects of the New Zealand character

**Skellerup is not unique** in having a long history as an innovative company. What perhaps sets us apart is how, over the more than 100 years we have been in business, we have consistently been able to build expertise in one area, and then apply those skills in a different way – to move into new products and new markets without compromising our existing business activities.

In the early 1940s, George Skellerup's search for salt to use in recycling rubber led him to construct the first salt works at Lake Grassmere. At the same time, the company was consolidating its manufacturing, distribution and retail operations in the lead-up to its first listing as a public company.

That way of thinking and working has enabled Skellerup to build a diversified and resilient business, one that is able to innovate and grow from a stable base.

Project Viking, highlighted by Sir Selwyn in his commentary and described in more detail elsewhere in this report, is one example of how Skellerup is able to implement change while meeting the needs of our existing customers.

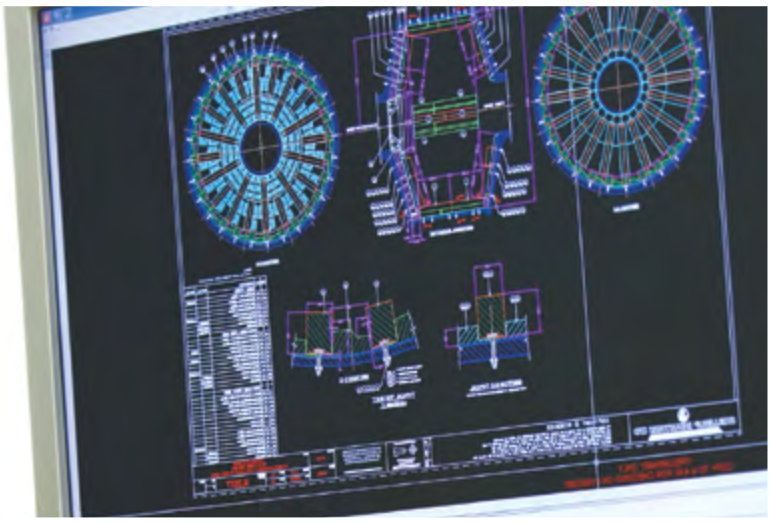
Ensuring continuity of production throughout the transition of our operations from Woolston to Wigram was critical. Completing such a significant project with no disruption to customer supply or product quality will be a major achievement by everybody involved.

In the same vein, while reaffirming our commitment to Christchurch and to New Zealand agriculture as a whole, we are continuing to develop our overseas operations, investing in a platform for future growth as well as recognising the immediate challenges posed by the challenging conditions facing many of our customers.

Those tough conditions – in particular the continued low prices for dairy products, iron ore, and oil and gas – have curtailed new investment by our existing and potential customers in New Zealand and overseas. Inevitably, this has affected demand for our products and services in the short term, across both the Agri and Industrial divisions.

The impact of this is evident in the earnings from our Agri business in FY16. We were able to offset lower sales in New Zealand in the early part of the year with increased export sales. However, as the year progressed, demand from our international customers softened also, resulting in a 15% reduction in Agri earnings on the prior year.

Our Industrial business delivered revenue growth up 7% to $132.0 million; as a result, earnings were up 9%. These outcomes were



**David Mair**
Skellerup Holdings Ltd
Chief Executive Officer

achieved in spite of a large reduction in sales revenue for our vacuum systems due to the low price for oil and gas. We also absorbed restructuring costs in FY16 totalling $800,000 where a number of long-serving employees have left the business.

The overall outcome was a small lift in revenue and a reduction in Group NPAT to $20.5 million. Although the growth in revenue was relatively small, it is pleasing to see an uplift in sales in the US and Australian markets that we have been targeting as well as growth in Asia. There is much more planned for the year ahead.

Operational cash flow is improving and should continue to do so as we utilise better systems to manage working capital. Our investment in product development will be ongoing where the company can make significant gains for relatively low investment in product design and tooling and where we are not required to invest significantly in plant and equipment.

Skellerup designs and manufactures critical components that boost performance: dairy rubberware that maximises milk quality and enhances animal health; Flexiflo chute liners that minimise downtime at iron ore mining sites; rubber coupling units used by some of the world's leading luxury car marques; and other products used by customers in industries ranging from potable water infrastructure to sports equipment.

Traditional manufacturing is alive and well, in Christchurch, Auckland and in our facilities in Australia, Britain, China, Vietnam, the US and Italy.

Our immediate challenge is to continue to marry those traditional skills and techniques with our commitment to innovation and to continuous improvement in what we do, and in how we do it. Achieving that will allow us to anticipate the needs of our customers and to meet their demand for fast and accurate solutions.

One example has been the development of automotive rubber couplings. We have successfully developed a coupling used in the E-Series Mercedes for the Chinese market and are looking at rolling out that product range into other markets. The challenges of the change to electric cars and lighter vehicles provide potential to work with customers to innovate and provide better solutions than exist currently.

Our broader challenge is to continue to develop a global business that embodies the best aspects of the New Zealand character: a capacity for hard work, a creative streak, and an interest in the world and how it operates – and, through that, to give young New Zealanders and the best international talent the opportunity to grow and develop within the company.

I continue to have great confidence in our strategic direction, and in our people and their ability to execute that strategy. The past year has been a volatile one, a time of significant change within Skellerup and across the world. During this period, we have successfully continued to build momentum in our business. This year, we hope to translate that momentum into further improvements in our performance.

# Product

## Becoming a market leader in innovation and design

**Close collaboration between** Skellerup's Dairy Division and its customers benefits both sides of the partnership, says Dairy International Operations Manager Steve Priest.

"Companies who work with us as partners and involve us in their product development process seem to be growing faster and generally outperforming those who see us simply as commodity product providers," says Steve. "And from our side, building those relationships gives us the opportunity to introduce customers to new products and systems, and to create a value proposition that goes beyond price."

Steve says Skellerup's technical and engineering capabilities are central to creating that value proposition.

"Being able to design and manufacture our own tools not only helps us protect our IP but it also means we can turn things around quickly, and tweak the production process as we need to," he says.

Steve says the growth over the past decade has come from working closely with Skellerup's customers to better understand the farmers' needs. This process has helped to transform the company from being a contract manufacturer to becoming a market leader in innovation and design.

"Back then, the development aspect of our work tended to focus on the materials. Today, our customers look to us for engineering-led solutions to meet a range of different requirements.

"Government and industry food safety standards can limit the scope in being able to change compounds, so design is a crucial component of the product development process," says Steve.

Farm practices vary from country to country, and Skellerup needs to ensure its products are right for local conditions. That might mean a different-shaped aperture, a variation in thickness, or a change in length to accommodate differences in teat and udder sizes.

"Farmers in the US, for example, are milking greater numbers of larger cows, and have more of a focus on speed than a traditional twice-a-day New Zealand operation.

"A liner that is used for up to six months in Europe or in this part of the world might be replaced after only a few weeks in US conditions," he says.

The need to maintain milk quality and animal health requirements is common to all markets.

Steve says he and the Dairy team are very much looking forward to the move to Wigram.

"At Wigram, we will have the site and the systems to develop and commercialise new products even more quickly and effectively and be able to work even more efficiently in terms of cost," says Steve.

"More than that, we will have a place where the next intake of engineers and technicians want to work, a place where we can show our customers what we can do for them, and an environment that matches our ambition to remain a world-leading player in the food industry."

# development

## Treat us as part of your team . . . get us involved in the design process

**Product Development Manager** Shaun Spacey's answer to a question about what his 10-strong, Auckland-based team does captures Skellerup's customer-focused approach perfectly.

"We work for the global sales team," says Shaun.

That puts Shaun in a good position to assess the success of the drive into the key North American market.

"Five years ago, about 60 per cent of what we were doing was for European-based customers," says Shaun. "Now, as much as 80 per cent of our work is for the US market."

While Shaun acknowledges some of that shift can be attributed to the relative fortunes of the two regions' manufacturing industries, he says having sales people in-market has made a massive difference.

"It means we're closer to our established customers now, and have greatly expanded the potential of those existing relationships," says Shaun.

"At the same time, it's given us the opportunity to promote our core products to new customers. To take one example, we previously worked closely with America's number-one tapware brand; now, we work with the top three brands.

"Having people on the ground has allowed us to really build on what we've done in the past, to capitalise on our experience in and knowledge of the US market."

"Essentially, product development is about solving problems," says Shaun. "And the problems manufacturing companies want to solve tend to centre on doing things better, cheaper and more efficiently. Rather than asking us to design a new component, they'll ask if we can make a better version of the component they're currently using."

In other words, can Skellerup-developed materials do the job at hand.

It's not always an easy question to answer. Ensuring a product meets the manufacturer's criteria can take as long as six months; the upside is that acceptance as a supplier is often an opportunity to build a deeper relationship.

"In-house technical and engineering expertise is hard to recruit and expensive to maintain," says Shaun.

"We say to our customers: treat us as part of your team. Get us involved in the design process; let us carry out the preliminary testing."

Taking up that offer can generate significant benefits. In one instance, Shaun's team developed a solution that replaced seven components with one. In another, having Skellerup pre-assemble a product rather than supply two individual components saved the manufacturer time and money.

"The right solution involves getting three things correct: the polymer, the product and the process," says Shaun. "If we can get involved in developing all three aspects, we can achieve the best result for the customer and the most sustainable returns for our business."

# We can offer systems that are easier to install and operate, and help our customers get the best-possible results

**Developing new products** and services has underpinned Masport's transformation from being a vacuum pump distributor to becoming a vacuum systems supply partner, says Vacuum Systems Group General Manager Guy Meuli.

Guy says that while the Masport brand has been in the US for 40 years, Skellerup's commitment to a US growth strategy had re-energised the product development process and given Masport the tools to counter the tough market conditions facing some of its biggest customers.

"Over the past couple of years, we've taken a close look at our whole business: our product range, how we segment our target markets, and how we can differentiate Masport from other suppliers and secure our customer base," says Guy.

He says continuing low oil prices have affected the oil and gas exploration industries and the liquid waste sector, both of which are significant customer groups for Masport.

However, challenging times force businesses to examine their operating models and methods more closely, he says, and provide companies like Masport with an opportunity to build market share.

"Customers become more willing to try new things: if we can demonstrate the ability to solve their problems quickly and effectively, we can establish ourselves as a supplier of choice."

Guy says successful product development starts in the field.

"Getting alongside the people who use the product gives us valuable insights into how it's used, which serve as the basis for improving the product's design or introducing other changes.

"We'll often video a customer installing one of our systems and then look at that footage to identify what we can change to make the process simpler and faster."

As well as making life easier for the customer, this process ensures the system operates as intended and that Masport maintains its reputation for quality.

"When something doesn't work, people are more likely to blame the equipment than to assume they're not using it properly," says Guy. "If we can offer a system that is easier to install and operate, we can help our customers get the best-possible results, and give ourselves a competitive advantage that goes beyond price."

The annual Water & Wastewater Equipment Treatment & Transport (WWETT) Show in Indianapolis is the biggest industry fair in the US. At this year's show, Masport displayed an entirely new range of products– and the response from existing and potential customers was resoundingly positive, says Guy.

"They recognised we aren't just tweaking things for the sake of it: we're making changes that will help them to do a better job for their customers."

**US Pumper truck** above and a Masport easy install Plug and Play system

**In November 2014,** on a bright and sunny afternoon, Skellerup's Chairman Sir Selwyn Cushing dug a spade into the ground as part of the official Ground Breaking Ceremony to signal the commencement of Project Viking.

Site damage at Woolston, caused by the Canterbury Earthquakes of 2010 and 2011, meant a new home had to be found for the business, and Skellerup was delighted to secure an outstanding location at Wigram from Ngāi Tahu Property during 2013.

Calder Stewart Industries Limited contracted for the design and build of the new dairy rubberware development, manufacturing and distribution facility. Unique requirements, including the need to incorporate certain plant into the facility as it was constructed, involved close collaboration with Skellerup and this was achieved throughout the project.

Construction of the facility is now complete. Final fit out, relocation and commissioning activities are in progress. The new facility in Wigram Business Park will replace the historic Woolston premises which have been in operation for almost 80 years.

The Project Champion, Sir Ron Carter, has provided leadership and direction to the overall project. Daily management and leadership has been provided by Nick Steel (Project Manager) and Geoff Harnett (Engineering Manager).

This essential investment to replace the existing facility will enable Skellerup's Agri Division to continue to be world leading in the rapid development and manufacture of dairy rubberware. The new site enables activities that were previously spread over two separate sites and 18 buildings into one single facility with room for growth and will be the cornerstone of the Agri business for many years to come.

**4 SEPTEMBER 2010**
7.1 magnitude earthquake. No injuries to staff or significant damage to site.

**22 FEBRUARY 2011**
6.3 magnitude earthquake. No injuries to staff.

**1 MARCH 2011**
Engineering approval to continue operation at Woolston.

**DECEMBER 2011**
Work begins to assess business's future requirements.

**23 AUGUST**
Decision announced to move from Woolston.

# Project Viking

## An engineering puzzle of epic proportions. Solved!

**The new flagship dairy rubberware** facility at Wigram is not only a worthy home for the in-house design and engineering expertise that drives Skellerup's Agri product development and manufacturing but it's also a first-class demonstration of it.

"The experience and knowledge of Skellerup's Technical, Engineering and Production teams has been central to the successful delivery of this project," says Engineering Manager Geoff Harnett.

The move to a new site provided an opportunity to create a purpose-built facility; in the words of Agri Division General Manager Guy Keogh, "to lay out the ideal design for what we do – and for what we expect to be doing in the coming decades – and put a wall around it."

However, before the wall could go up – even before the likely future state of the business could be assessed – the question "How exactly do we currently do what we do?" needed to be answered.

"Answering that was like solving the biggest jigsaw puzzle ever," says Geoff.

It was a jigsaw that took four years to pull apart and reassemble.

"When you're in 80-year-old buildings, you can't just consult the drawings," says Geoff. "There's an array of networks – electricity, hydraulics, process water, air-conditioning, ventilation – all of which have developed organically during that time.

"Analysing how they fit together is a process of discovery – untangling the past to understand the present; only when that's done can you start to think about delivering something better for the future."

As a result of the Canterbury Earthquakes of 2010 and 2011, it was necessary to find a new home for the business. It was determined early on that Christchurch continued to be the right place and so the search for a suitable site began.

During 2013, Skellerup reached agreement to purchase a site in the Wigram Business Park from Ngāi Tahu Property. With the decision to move to Wigram made, it was time to start solving the jigsaw.

"Key to that was putting together the right team," says Geoff. "We had a core group of people who were critical to the success of this project – and of course the help and support of the broader Skellerup organisation and of our contractors, who grabbed the opportunity to work collaboratively and who were committed to achieving the best-possible result."

The first piece of the puzzle was the rubber mixing plant.

"The mixing plant is at the centre of the process flow, and defined the site essentially," says Nick.

In 2013, the Board approved investment in a new rubber mixing plant to provide continuity of production on both sites while in transition. Fortunately for the team, the new mixing plant was already on hand at Woolston.

"Having the new mixing plant available at Woolston was a huge help in the design process," says Nick.

As part of that process, the machine itself was dismantled and reconfigured to better suit the planned layout.

Various possible set-ups for the new facility were painstakingly modelled in digital form using the laser-measured dimensions

2012

**MAY 2013**
Land purchase finalised with Ngai Tahu.

**MARCH 2014**
Insurance claim settled.

**JUNE 2014**
Decision announced to build at Wigram.

**NOVEMBER 2014**
Wigram Ground Breaking Ceremony and site preparation begins.

**JANUARY**
Wigram foundation work begins.

Team photo above:
**Project Viking Management Team.**
From left: **Jane George** (Beca), **Guy Keogh** (Skellerup), **Alan Clearwater** (Skellerup), **Ben Grant** (Calder Stewart), **Nick Steel** (Skellerup), **Geoff Harnett** (Skellerup).

of all manufacturing equipment to ensure a precise fit.

In addition, some quite rudimentary modelling techniques were employed: plywood models of the moulding machines were used to calculate how best to optimise space while ensuring operator comfort, production efficiency and ease of access for maintenance.

Geoff says the process was effectively reduced to four stages.

"First, data collection and analysis; then, system design, followed by plant layout; finally, architectural and structural design."

Nick says intensive preparation has gone into planning the move itself too, with pallets purpose-built to suit individual machines, and the changeover sequence designed to ensure minimal impact on production.

"We've run a number of Safety in Design workshops, which included safety in the installation, relocation, commissioning and operations of the equipment.

Nick says the Board's support of additional equipment allowed installation and commissioning prior to the relocation, to enable the team to complete the project with no disruption to customer supply or product quality.

"The mixer and auxiliary equipment will fully be commissioned and signed off by our technical department before any moulding equipment is removed from our current site," says Nick.

"Throughout the project, we've had two main goals: a functional and practical facility as well as zero harm to staff or contractors – and a determination to design the most efficient layout possible. Everything we need, and nothing we don't."

2015

**5 JANUARY 2016**
Plant installation commences at Wigram.

**MAY 2016**
Wigram building construction completed.

**JUNE 2016**
Wigram Distribution Centre begins operations.

**JUNE 2016**
Plant commissioning begins at Wigram.

# Australia

**Skellerup derives 25% of its revenue** from the Australian market, making it the second-largest market in the Group. This market consumes most of the products in the Skellerup portfolio, with our rubber, foam and plastic components sold into the construction, infrastructure, automotive, mining, plumbing and agri industries.

Australia is also the base for a number of our developmental activities. In Melbourne, our Engineering Team designs and sources products for plumbing, roofing and civil infrastructure applications and in Sydney we design automotive components for the global market.

With 75 staff based across the breadth of the continent, Skellerup's industrial business in Australia will remain a key market and development centre for the present and future.

## A move into new markets is driving strong growth in Australia for Deks

General Manager Andy Meese says Deks has been able to build on its reputation and its relationships with distributors to move beyond its core portfolio of plumbing and roofing products into water and wastewater infrastructure supplies, but this has been a challenging process.

"The approvals needed are numerous and difficult to gain," he says. "As well as the standards set by the industry body, each individual water utility has its own testing regime. The upshot is that, as a new entrant, Deks products are now probably the most rigorously tested and widely-certified components on the market."

With much of Australia's ageing water supply infrastructure needing regular repair and renewal – and with New South Wales, in particular, registering above-average levels of building approvals – growth prospects in the civil sector are strong.

At Deks, innovation – whether it be new products, new sectors or new markets – starts with the customer, says Technical Manager Jianwen Wang.

"Starting with an established need ensures that our research and development activities stay focused and that we prioritise the big opportunities," says Jianwen. "It also ensures

# market review

we have a market for the product before we invest time and capital."

Jianwen says keeping the development process closely aligned to the customer helps cement the overall relationship as well.

"If you develop a tailored solution that meets a defined need, the customer can't easily obtain a substitute product off someone else's shelf."

The development of the Australian business has the potential to boost Deks sales in other regions as well.

"The synergy that now exists between the Deks businesses in the USA, UK and Australasia has allowed us to take products developed in one market into others," says Andy.

One example of this is a range of shear-banded couplings, designed to connect wastewater and storm-water drainage pipes of different diameters or materials and to protect against shrinking and swelling in the surrounding soil that can cause pipes to fall out of alignment. Developed in Australia, the couplings have now been introduced into the UK successfully.

Expansion into new markets brings new challenges, says Andy.

"If you're selling roof flashings in the Middle East, buyers are not really interested in how waterproof they are – after all, it only rains about 12 days a year in the UAE. What they want is a product that can withstand high UV levels and extreme temperatures – and survive a sandstorm.

"They also want to deal with a company that has a commitment to quality and service."

The Middle East, in particular the UAE, is one of several excellent growth prospects, says Deks Export Manager Armando Mejia.

Another is India. There, the challenge is how the product is packaged, rather than how it is marketed, says Armando.

"There is a real single-serve culture over there – and it extends to building products as well," he says.

"So, rather than selling washers in thousands – or even in hundreds – we sell them in tear-off strips of 10 – enough to fix a sheet or two of roofing material."

This has been a painstaking process though – and one that took several months to perfect – but also an excellent illustration of Deks focus on the customer.

"Ultimately, it's been very successful for us," says Armando. "Sales have been good, and through this we've built a relationship with a major roof-sheet manufacturer and distributor in a country that has a rapidly growing construction industry."

**DEKS innovative** polymer products designed and manufactured to deliver outstanding performance all around the world – above and below ground..

**Moving fast and thinking faster** is Research and Development Manager Mike Christmas's recipe for balancing production of and demand for Skellerup's Flexiflo chute liners, designed for use in iron ore mining. Flexiflo sales are particularly exposed to fluctuations in steel production and the flow-on effect on the demand for iron ore.

Mike says trying to forecast how commodities markets will move is a risky strategy.

"Better to be aware of all the possibilities, and be ready to respond accordingly," he says.

Mike says that while Australia's iron ore industry as a whole is experiencing a downturn, individual mining companies' production can vary widely – and change rapidly.

"Our job is to get the size and structure of our business right, so that we can meet the needs of the market more effectively than other suppliers can," he says. "To date, we've done that very well."

Mike and his team also regularly review the compound used to manufacture Flexiflo – a similar process to the one a Formula One team uses to determine what tyres will best suit a given set of race conditions.

"For us, it's about striking a balance between product durability and process efficiency. A softer compound will reduce the chances of a chute blocking, but will have a shorter effective working life too," says Mike.

"As the market moves, our customers' requirements shift as well. Our challenge is to develop a product that meets those changing requirements faster and better than anyone else can."

FLEXIFLO

**Skellerup's balance sheet** remains in strong shape, the construction of our new facility in Christchurch is essentially complete and relocation of operations is now under way. The Company is soundly positioned to pursue growth in target markets using our products and technology to capitalise on demand for safe food and clean energy. The diverse range of skills and experience across Skellerup's Board ensures strategies and plans continue to be pursued with vigour and sound business discipline.

### Sir Selwyn Cushing

Skellerup Chairman Sir Selwyn Cushing has compiled a track record of outstanding commercial success over many years and in diverse industries. He has chaired major listed and privately held companies including Air New Zealand, Brierley Investments, Carter Holt Harvey and the Whitcoulls Group. Sir Selwyn also has long-standing involvement with various agribusiness enterprises; this gives him strong links to and a sound understanding of the farming sector, which remains one of Skellerup's most important markets. Sir Selwyn's appointment as Chairman in 2007 continued a connection with Skellerup that goes back some 30 years.

### Elizabeth (Liz) Coutts

Elizabeth has held an extensive range of governance roles in both the private and public sector for more than 20 years, including being a past member of the Monetary Policy Committee of the Reserve Bank of New Zealand and the Financial Reporting Standards Board of the Institute of Chartered Accountants in New Zealand. Her contribution to governance was acknowledged with her appointment to the New Zealand Order of Merit (ONZM) in 2016. She is currently Vice President of the Institute of Directors, Chair of Ports of Auckland since December 2015, Chair of Oceania Healthcare Limited and a director of NZX-listed companies EBOS Group Limited and Sanford Limited. Liz has been a member of Skellerup's Board since 2002.

### Ian Parton

Ian's academic and professional background in geotechnical engineering has been of considerable value to Skellerup throughout the planning for and construction of our new Agri Division hub at Wigram. A distinguished fellow and past president of the Institution of Professional Engineers New Zealand, he received the 2007 William Pickering Award for Engineering Leadership. Ian currently serves on the board of Auckland Transport and Construction Techniques, is Chairman of Aurora Energy and Delta Utility Services, and is Chancellor of The University of Auckland. He joined Skellerup's Board in May 2011.

# The Company is soundly positioned to pursue growth in target markets using our products and technology to capitalise on demand for safe food and clean energy

**John Strowger**

John is a leading commercial lawyer who specialises in corporate, contract and securities law and mergers & acquisitions. He was named NZ Dealmaker of the Year at the 2015 Australasian Law Awards, and is a former member of the Financial Markets Authority. A partner at Chapman Tripp, John co-heads that firm's China desk, which coordinates the work it does pertaining to investment and trade between China and New Zealand. He joined the Skellerup Board in March 2015.

**Alan Isaac**

Appointed to the Skellerup Board in August this year, Alan's track record of helping improve business performance, together with leadership during change and commercial acumen, is well regarded not only in New Zealand but also internationally. He enjoyed a distinguished 35-year career at KPMG including 10 years as Chairman. During this period and since, Alan has chaired and directed a range of national and international companies and sporting bodies. He currently serves on a number of boards including Scales Corporation Limited, Opus International Consultants Limited, Fliway Group Limited, Oceania Healthcare Limited, the NZ Community Trust and McGrathNicol Partners.

**David Mair**

Throughout his career, Chief Executive David Mair has demonstrated an ability to drive improvements in business processes that generate increased earnings and strong shareholder returns. He has wide-ranging international experience at director and executive level and is expert in managing global operations with a particular knowledge of Asia, where he lived and worked for a number of years. A director of Skellerup since 2006, David was appointed as Chief Executive in August 2011. He is also a director of Forté Funds Management Limited.

# Skellerup's Board and management are committed to building long-term shareholder value. As a key element of building this value, we maintain a framework to guide our people to act with integrity and in accordance with our practices and policies.

## Framework

Skellerup is incorporated in New Zealand and listed on the New Zealand Stock Exchange (NZX).

The governance practices and policies we have adopted are consistent with the requirements of both the:

- NZX Listing Rules and Corporate Governance Best Practice Code, and
- Financial Markets Authority (FMA) Corporate Governance in New Zealand Principles and Guidelines.

The Board regularly reviews and assesses Skellerup's governance policies, procedures and practices to ensure they are appropriate and effective.

## Ethical Standards

Skellerup's Directors set high standards of ethical behaviour and require members of the management team to conduct themselves similarly; they hold management accountable for delivering these standards throughout the organisation.

Skellerup's Code of Ethics provides a framework of ethical standards according to which Directors, management and all employees of the Company are expected to conduct themselves. The Code of Ethics outlines the Company's expectations for all Company personnel and includes consideration of conflicts of interest, conduct, legislative compliance, confidentiality and the use of the Company's assets and information.

Skellerup communicates its Code of Ethics to Directors and employees, explaining the Code's purpose and the mechanism for reporting any unethical behaviour. Skellerup has not received any reports of serious instances of unethical behaviour during the year.

Skellerup's Code of Ethics is published on its website at **www.skellerupholdings.com**

## Board Composition and Performance

The members of Skellerup's Board collectively provide the broad range of strategic, business, commercial and financial skills and knowledge, and the independence and experience required to lead and govern the Company effectively.

The Board regularly reviews its performance and composition to ensure it has the range of capabilities required. This is reflected in the appointment of two new Directors to the Board over the past 18 months.

Currently, the Board comprises four non-executive, independent Directors, one non-executive Director and one executive Director. The independence of Directors is reconsidered annually. See page xx for more information on the skills and experience of Skellerup's current Board. The independent status of each Director is noted also on page 55.

Board procedures ensure that all Directors have the information needed to contribute to informed discussion and decisions on a consistent basis and to carry out their duties effectively. Senior managers make direct presentations to the Board as required to give the Directors an understanding of management strategies, priorities, style and capabilities. Directors also visit Skellerup's facilities throughout the world as part of their ongoing engagement to ensure they are familiar with all aspects of the Company.

## Board Committees

The Board has appointed four Board committees to assist in carrying out its responsibilities effectively. The Board regularly reviews the performance of each standing committee against its specific written charter. The delegated responsibilities, powers and authorities of these committees are described below.

1. *Audit and Risk Management Committee*

   This committee currently comprises five non-executive Directors, one of whom is appointed as Chairperson. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO)

attend as ex-officio members; the external auditors attend by invitation of the Chairperson.

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
- 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), Sir Selwyn Cushing, Dr Ian Parton, John Strowger and Alan Isaac.

2. *Health and Safety Committee*

This committee comprises two non-executive Directors, one of whom is appointed as Chair, plus the executive Director. The CFO attends meetings also, as an ex-officio member. This committee meets a minimum of four times each year. Its responsibilities are to:

- Provide leadership and policy for Health and Safety (H&S) management within the Skellerup Group
- Advise the Board on H&S strategy and policy and specify targets to track performance
- Review management systems to ensure that they are appropriate to manage hazards and risks of the business
- Monitor and review performance by specifying and receiving timely reports on incidents, investigations and resultant actions and with the assistance of internal and external audits

The H&S Committee reports proceedings of each of its meetings to the full Board. The current composition of the committee is John Strowger (Chair), Dr Ian Parton and David Mair.

3. *Remuneration Committee*

This committee comprises three non-executive Directors. It meets as required to:

- Review the remuneration packages of the CEO and senior managers
- Make recommendations to shareholders in relation to non-executive Directors' 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 Sir Selwyn Cushing (Chair), Elizabeth Coutts and Alan Isaac.

4. *Board Nomination Committee*

This committee comprises two non-executive Directors. It meets as required to recommend new appointments to the Board.

The current composition of the Board Nomination Committee is Sir Selwyn Cushing (Chair) and Elizabeth Coutts.

## Reporting and Disclosure

The Board demands integrity in financial reporting and in the timeliness and balance of information disclosed.

The financial progress of Skellerup's two divisions is reported separately to the Board each month to enable divisional financial performance to be reviewed in the context of the Company's strategies and objectives. Monthly reporting also provides information on H&S key opportunities, personnel, customers and risks facing the business, and the steps being taken to optimise outcomes.

The Audit and Risk Management Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements. The Company seeks to provide clear, concise financial statements. Management accountability for the integrity of the Company's financial reporting is reinforced in writing by certification of the CEO and CFO that the financial statements fairly present the financial results and position of the Company.

The Company has clear processes in place to ensure compliance with the continuous disclosure requirements that come with being an NZX-listed company.

## Remuneration

The remuneration of Directors and executives is transparent, fair and reasonable.

The Board's Remuneration Committee is responsible for reviewing remuneration packages of the CEO and senior managers and making recommendations to shareholders in relation to non-executive Directors' remuneration.

The current approved pool of remuneration available for the payment of non-executive Directors is $475,000. This was approved by shareholders at the Annual Meeting on 26 October 2011. Non-executive Directors are paid a fixed cash fee. Non-executive Directors are not part of any share scheme. In the year ended 30 June 2016, total fees paid to non-executive Directors amounted to $420,000. Details are shown on page 55.

Senior executives' remuneration comprises a combination of fixed and at-risk components. Payment of the at-risk component is linked to exceeding previous best annual financial performance in the areas of the business for which each executive is responsible or, in some circumstances, the achievement of specific projects. A long-term share-based incentive scheme is in place for the CEO. This is described in Note 17 of the financial statements on page 45. Total remuneration paid to the CEO in the year ended 30 June 2016 is shown on page 55.

## Risk Management

Each Director has a sound understanding of the key risks faced by Skellerup.

The Board, advised by the Audit and Risk Management Committee, reviews the Company's Risk Management Report prepared by the CEO and management team on a semi-annual basis and specific items are monitored on a monthly basis. The Risk Management Report identifies key risks and strategies to manage these risks. The Board ensures that adequate external insurance cover is in place appropriate to the Company's size and risk profile.

The Audit and Risk Management Committee monitors the Company's system of internal financial control with the aid of reviews and reports prepared by external providers and periodic certification by the CEO and CFO. This system includes clearly defined policies controlling treasury operations and capital expenditure authorisation. The CFO is responsible for ensuring that all operations within the Company adhere to the Board-approved financial control policies.

The H&S Committee leads and monitors H&S management within the Skellerup Group. The Company operates a comprehensive H&S framework across all of its businesses to identify and address workplace hazards and to monitor and review compliance with H&S policies and procedures. Board review of H&S is a priority and is facilitated by both the activities of the H&S Committee and the receipt and review of H&S reports at each Board meeting.

## Audit

The Board ensures the quality and independence of the external audit process, which culminates in the Audit Report issued in relation to the annual financial statements.

To ensure independence of the Company's external auditor is maintained, the Audit and Risk Management Committee approves any non-audit services that are provided by the external auditor. The Audit and Risk Management Committee meets regularly with the external auditors and management.

Skellerup's external auditor is Ernst & Young (EY) and was reappointed by shareholders at the 2015 Annual Meeting in accordance with the Companies Act 1993. EY provided tax assurance services during the year ended 30 June 2016. The audit partner responsible for the Skellerup audit has been the lead audit partner for the past four years.

The significant issues and judgements considered by the Audit and Risk Management Committee are disclosed in Note (f) on page 28 of the financial statements.

## Shareholder Relations

The Board aims to ensure that shareholders are kept informed of developments affecting the Company and encourages shareholders to engage with the Company. Information is communicated to shareholders through the annual and interim reports, and periodic and continuous disclosure to the NZX, and at Annual Meetings.

The Board encourages shareholders to attend and participate fully at Annual Meetings to ensure they exercise the opportunity to ask questions about the Company and its performance.

The Company also maintains information for shareholders on its website (**www.skellerupholdings.com**). This includes a description of Skellerup's business and structure, copies of key corporate governance documents (including Board and Subcommittee Charters, Code of Ethics and Financial Products Trading Policy) and all information released to the NZX.

## Stakeholder Relations

The Board respects the interests of all stakeholders in the Company. Skellerup strives to manage its business in a manner that delivers long-term shareholder value by delivering consistent, quality solutions for customers, a work environment that is safe and delivers development opportunities for its employees, and meets or exceeds the compliance requirements in the environments in which the Company operates.

# Skellerup Holdings Limited
# Financial Statements
# for the year ended 30 June 2016

Chartered Accountants

**Independent Auditor's Report**

**To the Shareholders of Skellerup Holdings Limited**

**Report on the Financial Statements**

We have audited the group financial statements of Skellerup Holdings Limited and its subsidiaries ("the Group") on pages 22 to 54, which comprise the balance sheet of the Group as at 30 June 2016, and the statement of comprehensive income, income statement, statement of changes in equity and cash flow statement for the year then ended of the Group, and a summary of significant accounting policies and other explanatory information.

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

**Directors' Responsibility for the Financial Statements**

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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

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

We provide taxation assurance services to the Group. We have no other relationship with, or interest in, the Group.

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

**Opinion**

In our opinion, the financial statements on pages 22 to 54 present fairly, in all material respects, the financial position of the Group as at 30 June 2016 and the financial performance and cash flows of the Group for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Ernst + Young

18 August 2016
Auckland

## Director's Responsibility Statement for the year ended 30 June 2016

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements, which give a true and fair view of the financial position of the Skellerup Holdings Limited Group as at 30 June 2016, and the results of their operations and cash flows for the year ended 30 June 2016.

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

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

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

The Directors are pleased to present the Group financial statements of Skellerup Holdings Limited for the year ended 30 June 2016.

The Group financial statements are dated 18 August 2016 and are signed in accordance with a resolution of the Directors made pursuant to section 211 of the Companies Act 1993.

For and on behalf of the Directors

**Sir SJ Cushing**
Chairman of the Board of Directors

**EM Coutts**
Director

## Income Statement for the year ended 30 June 2016

| | Note | **2016 $000** | 2015 $000 |
|---|---|---|---|
| **Revenue** | 2 | **211,415** | 203,011 |
| Cost of sales | | **(130,629)** | (122,262) |
| **Gross profit** | | **80,786** | 80,749 |
| Other income / (expenses) | 4 | **(239)** | 1,683 |
| Distribution expenses | | **(14,509)** | (14,168) |
| Marketing expenses | | **(17,331)** | (17,410) |
| Administration expenses | | **(19,197)** | (19,735) |
| **Profit for the year before tax, finance costs and relocation costs** | | **29,510** | 31,119 |
| Finance costs | 15 | **(411)** | (163) |
| **Profit for the year before tax and relocation costs** | | **29,099** | 30,956 |
| Relocation costs as a result of the 2011 Canterbury earthquakes | 3 | **(145)** | – |
| **Profit for the year before tax** | | **28,954** | 30,956 |
| Income tax expense | 5 | **(8,429)** | (9,023) |
| **Net after-tax profit for the year, attributable to owners of the Parent** | | **20,525** | 21,933 |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (cents) | 18 | **10.65** | 11.38 |
| Basic and diluted earnings per share (excluding relocation costs) (cents) | 18 | **10.72** | 11.38 |

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

## Statement of Comprehensive Income for the year ended 30 June 2016

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Net profit after tax for the year** | | **20,525** | 21,933 |
| **Other comprehensive income** | | | |
| **Will be reclassified subsequently to profit or loss when specific conditions are met** | | | |
| Net gains/(losses) on cash flow hedges | 16 | **1,627** | (672) |
| Income tax related to gains/(losses) on cash flow hedges | 5 | **(494)** | 194 |
| **Not expected to be reclassified subsequently to profit or loss** | | | |
| Foreign exchange movements on translation of overseas subsidiaries | 16 | **(8,166)** | 10,184 |
| Income tax related to gains/(losses) on foreign exchange movements of loans with overseas subsidiaries | 5 | **(7)** | (388) |
| **Other comprehensive income net of tax** | | **(7,040)** | 9,318 |
| **Total comprehensive income for the year attributable to equity holders of the Parent** | | **13,485** | 31,251 |

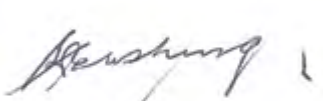
*The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

## Balance Sheet as at 30 June 2016

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 6 | **9,510** | 11,580 |
| Trade and other receivables | 7 | **38,979** | 45,102 |
| Inventories | 8 | **38,483** | 41,377 |
| Income tax receivable | 5 | **491** | 419 |
| Derivative financial assets | 21 | **1,273** | 32 |
| **Total current assets** | | **88,736** | 98,510 |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **90,541** | 60,475 |
| Deferred tax assets | 5 | **3,277** | 3,569 |
| Goodwill | 10 | **44,235** | 47,276 |
| Intangible assets | 10 | **1,215** | 1,801 |
| **Total non-current assets** | | **139,268** | 113,121 |
| **Total assets** | | **228,004** | 211,631 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **21,513** | 25,042 |
| Provisions | 12 | **8,644** | 8,569 |
| Income tax payable | 5 | **2,318** | 2,585 |
| Derivative financial liabilities | 21 | **157** | 694 |
| **Total current liabilities** | | **32,632** | 36,890 |
| **Non-current liabilities** | | | |
| Provisions | 12 | **1,148** | 2,677 |
| Interest-bearing loans and borrowings | 13 | **36,413** | 10,750 |
| Deferred tax liabilities | 5 | **1,782** | 1,654 |
| Derivative financial liabilities | 21 | **174** | – |
| **Total non-current liabilities** | | **39,517** | 15,081 |
| **Total liabilities** | | **72,149** | 51,971 |
| **Net assets** | | **155,855** | 159,660 |
| **Equity** | | | |
| **Equity attributable to equity holders of the Parent** | | | |
| Share capital | 14 | **69,732** | 69,732 |
| Reserves | 16 | **(11,663)** | (4,686) |
| Retained earnings | 19 | **97,786** | 94,614 |
| **Total equity** | | **155,855** | 159,660 |

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

*For and on behalf of the Board, which authorised these financial statements on 18 August 2016.*



**Sir SJ Cushing**
Chairman of the Board of Directors

**EM Coutts**
Director

## Statement of Changes in Equity for the year ended 30 June 2016

| | Note | Fully Paid Ordinary Shares $000 | Cash Flow Hedge Reserve $000 | Foreign Currency Translation Reserve $000 | Employee Share Plan Reserve $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| **Balance 1 July 2014** | | 69,732 | 2 | (14,414) | 302 | 89,069 | 144,691 |
| Net profit after tax for the year ending 30 June 2015 | | – | – | – | – | 21,933 | 21,933 |
| Other comprehensive income | | – | (478) | 9,796 | – | – | 9,318 |
| **Total comprehensive income for the year** | | – | (478) | 9,796 | – | 21,933 | 31,251 |
| Share incentive scheme | | – | – | – | 106 | – | 106 |
| Dividends | | – | – | – | – | (16,388) | (16,388) |
| **Balance 30 June 2015** | | 69,732 | (476) | (4,618) | 408 | 94,614 | 159,660 |
| Net profit after tax for the year ending 30 June 2016 | | – | – | – | – | 20,525 | **20,525** |
| Other comprehensive income | 16 | – | 1,133 | (8,173) | – | – | **(7,040)** |
| **Total comprehensive income for the year** | | – | **1,133** | **(8,173)** | **–** | **20,525** | **13,485** |
| Share incentive scheme | 17 | – | – | – | 63 | – | **63** |
| Dividends | 19 | – | – | – | – | (17,353) | **(17,353)** |
| **Balance 30 June 2016** | | **69,732** | **657** | **(12,791)** | **471** | **97,786** | **155,855** |

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

## Cash Flow Statement for the year ended 30 June 2016

| | Note | **2016 $000** | 2015 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **216,795** | 200,073 |
| Interest received | | **29** | 68 |
| Dividends received | | **1** | 1 |
| Payments to suppliers and employees | | **(176,076)** | (172,257) |
| Income tax refund/(paid) | | **(8,733)** | (9,667) |
| Interest and bank fees paid | | **(1,077)** | (416) |
| **Net cash flows from/(used in) operating activities** | | **30,939** | 17,802 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | **606** | 61 |
| Payments for property, plant and equipment | | **(39,831)** | (17,829) |
| Payments for intangible assets | | **(299)** | (291) |
| **Net cash flows from/(used in) investing activities** | | **(39,524)** | (18,059) |
| **Cash flows from financing activities** | | | |
| Proceeds from loans and advances | | **25,688** | 10,750 |
| Dividends paid to equity holders of Parent | | **(17,353)** | (16,388) |
| **Net cash flows from/(used in) financing activities** | | **8,335** | (5,638) |
| Net increase/(decrease) in cash and cash equivalents | | **(250)** | (5,895) |
| Cash and cash equivalents at the beginning of the year | | **11,580** | 16,369 |
| Effect of exchange rate fluctuations | | **(1,820)** | 1,106 |
| **Cash and cash equivalents at the end of the year** | 6 | **9,510** | 11,580 |

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

**Reconciliation of net profit after tax to net cash flow from operations**

| | **2016 $000** | 2015 $000 |
|---|---|---|
| Net profit after tax | **20,525** | 21,933 |
| Adjustments for: | | |
| Depreciation | **6,546** | 6,402 |
| Amortisation | **948** | 902 |
| Loss on sale of assets | **(107)** | 152 |
| Foreign currency movements on translating foreign assets and liabilities | **1,769** | (780) |
| Bad debts written off | **18** | (49) |
| Net movement in working capital | **1,240** | (10,758) |
| **Net cash inflow from operating activities** | **30,939** | 17,802 |

**Reporting Entity**

Skellerup Holdings Limited ('the Company') is a limited liability company incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993 with its registered office at Level 3, 205 Great South Road, Greenlane, Auckland. The Company is a Reporting Entity in terms of the Financial Markets Conduct Act 2013 and is listed on the New Zealand Exchange (NZX Main Board) with the ticker SKL.

**(a) Nature of operations**

The Skellerup Group of companies is a global solutions provider of technical polymer products for a variety of specialist industrial and agricultural applications. Skellerup's operations are split into two units: the Agri Division, the world's second-largest provider of rubber products including dairy liners, tubing and filters, and a world leader in providing animal health products to the global dairy industry; and the Industrial Division, a leader in technically demanding polymer products for the automotive, mining, environmental, medical and construction industries.

**(b) Basis of preparation**

These financial statements of the Group, a profit-oriented business, are for the year ended 30 June 2016.

**(c) Statement of compliance**

The consolidated financial statements for the year ended 30 June 2016 have been prepared in accordance with New Zealand Generally Accepted Accounting Practices. For the purpose of complying with NZ GAAP, the group is a for-profit entity. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'). The financial statements also comply with International Financial Reporting Standards ('IFRS'). The financial statements are presented in New Zealand dollars (NZD) and all values are rounded to the nearest thousand dollars ($000).

The accounting principles recognised as appropriate for the measuring and reporting of profit and loss and financial position on an historical-cost basis have been applied, except for derivative financial instruments, which have been measured at fair value.

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Critical accounting judgements, estimates and assumptions are detailed in Note (f).

**(d) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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

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

**(e) Foreign currency translation**

**Functional and presentation currency**

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

**Transactions and balances**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to New Zealand dollars at foreign exchange rates ruling at the dates the fair value was determined.

**Group companies**

The assets and liabilities of all Group companies that have a functional currency that differs from the presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these foreign operations are translated to New Zealand dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the foreign exchange rates ruling at the balance sheet date.

**(f) Significant accounting judgements and assumptions**

In the process of applying the Group's accounting policies, a number of judgements have been made and estimates of future events applied. Judgements and estimates which are material to the financial statements are found in the following notes.


- Note 10 Impairment of goodwill page 38
- Note 12 Warranty provisions page 41
- Note 8 Inventory obsolescence page 36
- Note 9 Estimation of useful lives of assets page 37
- Note 5 Recovery of deferred tax asset page 33

## 1. Segment Information

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

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

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

**Agri Division**

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

**Industrial Division**

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

**Corporate Division**

The Corporate Division includes the Parent company and other central administration expenses that have not been allocated to the Agri and Industrial Divisions.

**(a) Business segment analysis**

| For the year ended 30 June 2016 | Agri $000 | Industrial $000 | Corporate $000 | Eliminations $000 | Total $000 |
|---|---|---|---|---|---|
| **Revenue** | **79,613** | **132,029** | **4** | **(231)** | **211,415** |
| **Segment EBIT** | **18,762** | **15,264** | **(4,515)** | **(1)** | **29,510** |
| Profit before tax, finance costs and relocation costs | | | | | **29,510** |
| Finance costs | | | | | **(411)** |
| Profit for the year before tax and relocation costs | | | | | **29,099** |
| Relocation costs | | | | | **(145)** |
| Profit for the year before tax | | | | | **28,954** |
| Income tax expense | | | | | **(8,429)** |
| **Net after-tax profit** | | | | | **20,525** |
| **Assets and liabilities** | | | | | |
| Segment assets | **74,920** | **99,009** | **54,075** | **–** | **228,004** |
| Segment liabilities | **13,422** | **17,129** | **41,598** | **–** | **72,149** |
| **Net assets** | **61,498** | **81,880** | **12,477** | **–** | **155,855** |
| **Other segment information** | | | | | |
| Capital expenditure | **15,739** | **2,618** | **20,532** | **–** | **38,889** |
| **Cash flow** | | | | | |
| Segment EBIT | **18,762** | **15,264** | **(4,515)** | **(1)** | **29,510** |
| Adjustments for: | | | | | |
| - Depreciation and amortisation | **3,723** | **3,713** | **58** | **–** | **7,494** |
| - Non-cash items | **–** | **–** | **1,680** | **–** | **1,680** |
| Movement in working capital | **3,042** | **(755)** | **(1,044)** | **(3)** | **1,240** |
| **Segment cash flow** | **25,557** | **18,222** | **(3,447)** | **(4)** | **39,924** |
| Finance and tax cash expense | | | | | **(9,810)** |
| Relocation cost | | | | | **(145)** |
| Movement in finance and tax accrual | | | | | **970** |
| **Net cash flow from operating activities** | | | | | **30,939** |

**1. Segment Information (continued)**

| For the year ended 30 June 2015 | Agri $000 | Industrial $000 | Corporate $000 | Eliminations $000 | Total $000 |
|---|---|---|---|---|---|
| **Revenue** | 80,460 | 122,969 | 17 | (435) | 203,011 |
| **Segment EBIT** | 22,145 | 14,043 | (5,067) | (2) | 31,119 |
| Profit before tax and finance costs | | | | | 31,119 |
| Finance costs | | | | | (163) |
| Profit for the year before tax | | | | | 30,956 |
| Income tax expense | | | | | (9,023) |
| **Net after-tax profit** | | | | | 21,933 |
| **Assets and liabilities** | | | | | |
| Segment assets | 70,486 | 106,057 | 35,088 | – | 211,631 |
| Segment liabilities | 13,693 | 19,898 | 18,380 | – | 51,971 |
| **Net assets** | 56,793 | 86,159 | 16,708 | – | 159,660 |
| **Other segment information** | | | | | |
| Capital expenditure | 6,170 | 3,121 | 11,149 | – | 20,440 |
| **Cash flow** | | | | | |
| Segment EBIT | 22,145 | 14,043 | (5,067) | (2) | 31,119 |
| Adjustments for: | | | | | |
| - Depreciation and amortisation | 3,503 | 3,753 | 48 | – | 7,304 |
| - Non-cash items | – | – | (677) | – | (677) |
| Movement in working capital | (1,187) | (7,221) | (2,343) | (7) | (10,758) |
| **Segment cash flow** | 24,461 | 10,575 | (8,039) | (9) | 26,988 |
| Finance and tax cash expense | | | | | (10,083) |
| Movement in finance and tax accrual | | | | | 897 |
| **Net cash flow from operating activities** | | | | | 17,802 |

**Major customers**

The Agri and Industrial Divisions generate revenue from a large number of customers.
For the Agri Division, the three largest customers account for 33.3% (2015: 31.3%) of the Agri Division revenue.
For the Industrial Division, the three largest customers account for 9.9% (2015: 8.7%) of the Industrial Division revenue.

## 1. Segment Information (continued)

### (b) Geographical revenue

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to each geographical location based on the location of the customers. Differences in foreign currency translation rates can impact comparisons between years.

| | 2016 $000 | 2015 $000 |
|---|---|---|
| New Zealand | 45,677 | 48,722 |
| Australia | 51,832 | 50,977 |
| North America | 57,834 | 50,384 |
| Europe | 26,554 | 25,700 |
| United Kingdom and Ireland | 14,272 | 13,332 |
| Asia | 12,386 | 10,408 |
| Other | 2,860 | 3,488 |
| **Total revenue** | 211,415 | 203,011 |

### (c) Assets by geographical location

The non-current segment assets are scheduled by the geographical location in which the asset is held.

The non-current assets, which include property, plant and equipment, goodwill and intangible assets for each geographical location, are as follows:

| | 2016 $000 | 2015 $000 |
|---|---|---|
| New Zealand | 97,635 | 66,496 |
| Australia | 9,548 | 10,382 |
| Europe | 10,870 | 12,549 |
| United Kingdom and Ireland | 8,708 | 11,073 |
| Asia | 7,851 | 7,538 |
| North America | 1,379 | 1,514 |
| **Non-current assets by geographical location** | 135,991 | 109,552 |

## 2. Operating Revenue

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

**Sale of goods**
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. The timing of when risks and rewards are considered passed to the buyer varies depending on the contractual terms of sale.

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

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

### 3. Expenditure Included in Net Profit for the Year

Net profit for the year has been arrived at after charging the items noted below. Where the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, the GST/VAT is recognised as part of the expense item as applicable.

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Employee benefits expense:** | | | |
| Wages and salaries (including annual leave, long-service leave, CEO share scheme and sick leave) | | **46,421** | 45,881 |
| Termination benefits | | **509** | 470 |
| Defined contribution expense | | **2,573** | 2,875 |
| **Total employee benefit expense** | | **49,503** | 49,226 |
| **Depreciation and amortisation expense:** | | | |
| Depreciation of property, plant and equipment | 9 | **6,546** | 6,402 |
| Amortisation of intangible assets | 10 | **948** | 902 |
| **Total depreciation and amortisation expense** | | **7,494** | 7,304 |
| **Total (gain)/loss on disposal of property, plant and equipment** | | **(107)** | 152 |
| **Total product development costs** | | **4,136** | 4,232 |
| **Total rentals and operating lease costs** | 23 | **5,874** | 5,615 |
| **Remuneration of auditors:** | | | |
| Audit of the financial statements by Parent company auditors | | **409** | 381 |
| Other auditors' fees for the audit of the financial statements in foreign jurisdictions | | **110** | 79 |
| Taxation assurance services provided by Parent company auditors | | **42** | – |
| **Total remuneration of auditors** | | **561** | 460 |
| **Relocation costs as a result of the 2011 Canterbury earthquakes** | | | |
| Costs incurred | | **145** | – |

### 4. Other Income

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Interest income | **29** | 68 |
| Government grants received | **23** | 33 |
| Realised and unrealised foreign currency gains / (losses) | **(1,275)** | 558 |
| Other sundry income | **984** | 1,024 |
| **Total other income / (expenses)** | **(239)** | 1,683 |

## 5. Taxation

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

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

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

- For a deferred income tax liability arising from the initial recognition of goodwill; or
- Where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

### (a) Income statement

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Current income tax** | | |
| Current income tax charge/(credit) | **8,670** | 9,360 |
| Prior-year adjustments | **(96)** | (62) |
| **Deferred income tax** | | |
| Temporary difference reversal/(origination) | **(105)** | (429) |
| Prior-year adjustments | **24** | 154 |
| Effect of movement in tax rates | **(64)** | – |
| **Income tax expense as per income statement** | **8,429** | 9,023 |

### (b) Amounts charged to other comprehensive income

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Current Income Tax** | | | |
| Fair value of derivative financial instruments | 16 | **494** | (194) |
| Translation of foreign operations | 16 | **7** | 388 |
| **Total income tax expense/(credit) relating to other comprehensive income** | | **501** | 194 |

## 5. Taxation

### (c) Reconcilliation

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| Profit for the year before tax | | **29,099** | 30,956 |
| Relocation costs as a result of the 2011 Canterbury Earthquakes | | **(145)** | – |
| **Total profit before tax as reported** | | **28,954** | 30,956 |
| | | | |
| Tax percentage at Parent company rate | | **28%** | 28% |
| Tax at Parent company rate | | **8,107** | 8,667 |
| Non-deductible expenses/(non-assessable income) | | **191** | 34 |
| Tax effects of non-New Zealand profits | | **268** | 229 |
| Adjustments for prior years | | **(73)** | 93 |
| Effect of movement in tax rates | | **(64)** | – |
| **Income tax as per income statement** | | **8,429** | 9,023 |

### (d) Deferred tax assets and liabilities

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| Deferred tax asset | | **3,277** | 3,569 |
| Deferred tax liability | | **(1,782)** | (1,654) |
| **Net tax asset** | | **1,495** | 1,915 |

The deferred tax assets and liabilities can be offset only if they occur in the same tax jurisdiction. Certain prior year balances have been restated to classify asset and liability balances on a consistent basis to the current year.

The movement in the net deferred tax assets and liabilities is provided below:

| **2016** | **Note** | **Opening Balance** | **Charged to income** | **Charged to other comprehensive income** | **Foreign currency movements** | **Closing balance** |
|---|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 | $000 |
| Property, plant and equipment | | (1,654) | 278 | | 56 | **(1,320)** |
| Provisions and accruals | | 3,321 | (91) | | (118) | **3,112** |
| Financial derivatives | | 194 | | (494) | | **(300)** |
| Other | | 54 | (46) | | (5) | **3** |
| **Net tax asset** | | **1,915** | **141** | **(494)** | **(67)** | **1,495** |

| **2015** | **Note** | **Opening Balance** | **Charged to income** | **Charged to other comprehensive income** | **Foreign currency movements** | **Closing balance** |
|---|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 | $000 |
| Property, plant and equipment | | (1,935) | 289 | | (8) | (1,654) |
| Provisions and accruals | | 3,594 | (288) | | 15 | 3,321 |
| Financial derivatives | | | | 194 | | 194 |
| Other | | | 54 | | | 54 |
| **Net tax asset** | | 1,659 | 55 | 194 | 7 | 1,915 |

**(e) Imputation credit account**

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Balance at the beginning of the year** | | **4,728** | 6,239 |
| Attached to dividends paid | 19 | **(6,642)** | (6,298) |
| Income tax paid in New Zealand | | **5,205** | 5,406 |
| Income tax to be paid in New Zealand (estimate) | | **1,989** | 1,168 |
| Reversal of previous year's estimate | | **(1,168)** | (1,787) |
| **Total imputation credits** | | **4,112** | 4,728 |

**6. Cash and Cash Equivalents**

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

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash flows are included in the cash flow statement on a gross basis and the GST/VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

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

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

### 7. Trade and Other Receivables

Trade receivables are recorded at fair value less an allowance for any uncollectable amounts. Collectability of trade debtors is reviewed on an ongoing basis and a provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Any amount of provision recognised represents the difference between the carrying amount of these trade receivables and the expected recoverable amount. Bad debts are written off when identified.

| | **2016 $000** | 2015 $000 |
|---|---|---|
| Trade receivables | **36,144** | 41,534 |
| Less allowance for doubtful debts | **218** | 216 |
| | **35,926** | 41,318 |
| GST/Vat receivable | **413** | 484 |
| Other | **2,640** | 3,300 |
| **Total trade and other receivables** | **38,979** | 45,102 |

The average credit period for the sale of goods is 57 days (2015: 68 days). The Group offers credit terms ranging from 30 to 120 days to those customers for whom the Group has been able to validate acceptable credit quality. The credit terms and limits are reviewed monthly. No interest is charged on the trade receivables.

Of the trade receivables balance at the end of the year, $6.94 million (2015: $6.50 million) representing 19.3% (2015: 15.7%) of the trade receivables are due from the Group's three largest customers. The balances due from these customers are current and are considered to be a low credit risk to the Group.

| **Ageing of past due but not impaired trade receivables:** | **2016 $000** | 2015 $000 |
|---|---|---|
| One to 30 days | **7,995** | 7,198 |
| 31 to 60 days | **994** | 2,247 |
| 61 days plus | **651** | 731 |
| **Total past due trade receivables** | **9,640** | 10,176 |
| **Movement in the allowance for doubtful debts:** | | |
| Balance at the beginning of the year | **216** | 412 |
| Impaired losses recognised | **116** | 37 |
| Amounts written off as uncollectable | **(26)** | (167) |
| Impairment losses reversed | **(76)** | (100) |
| Net foreign currency exchange differences | **(12)** | 34 |
| **Balance at the end of the year** | **218** | 216 |

### 8. Inventories

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

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

Raw materials as the purchase cost on a first-in, first-out basis.

Finished goods and work-in-progress as the cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

| | **2016 $000** | 2015 $000 |
|---|---|---|
| Raw materials | **7,705** | 8,382 |
| Work-in-progress | **2,536** | 2,546 |
| Finished goods | **28,242** | 30,449 |
| **Total inventories** | **38,483** | 41,377 |

The value of inventories is net of $2,202,032 (2015: $2,480,843) in respect of write-downs across all categories of inventory to net realisable value. All inventory write-down movements are included in the cost of sales. Certain inventories are subject to retention of title clauses where the inventory has not been paid for.

## 9. Property, Plant and Equipment

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

Depreciation of property, plant and equipment, other than freehold land, which is carried at cost, is calculated on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| Buildings: | 40 years |
| Plant and equipment: | Two to 20 years |
| Furniture, fittings and other: | Five to 10 years |

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

At each reporting date, the Group assesses whether or not there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

| | Note | Freehold Land $000 | Freehold Buildings $000 | Plant and Equipment $000 | Furniture, Fittings and Other $000 | Total $000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance 1 July 2014** | | 7,258 | 886 | 70,820 | 7,069 | 86,033 |
| Additions | | – | 11,059 | 8,607 | 490 | 20,156 |
| Disposals | | – | – | (925) | (241) | (1,166) |
| Net foreign currency exchange differences | | – | – | 5,003 | 581 | 5,584 |
| **Balance 30 June 2015** | | 7,258 | 11,945 | 83,505 | 7,899 | 110,607 |
| Additions | | – | **20,508** | **17,417** | **579** | **38,504** |
| Disposals | | – | – | **(1,844)** | **(354)** | **(2,198)** |
| Net foreign currency exchange differences | | – | – | **(4,285)** | **(404)** | **(4,689)** |
| **Balance 30 June 2016** | | **7,258** | **32,453** | **94,793** | **7,720** | **142,224** |
| **Accumulated depreciation and impairment** | | | | | | |
| **Balance 1 July 2014** | | – | – | 36,502 | 4,744 | 41,246 |
| Depreciation expense | 3 | – | – | 5,767 | 635 | 6,402 |
| Disposals | | – | – | (722) | (230) | (952) |
| Net foreign currency exchange differences | | – | – | 3,106 | 330 | 3,436 |
| **Balance 30 June 2015** | | – | – | 44,653 | 5,479 | 50,132 |
| Depreciation expense | 3 | – | – | **5,926** | **620** | **6,546** |
| Disposals | | – | – | **(1,387)** | **(312)** | **(1,699)** |
| Net foreign currency exchange differences | | – | – | **(3,043)** | **(253)** | **(3,296)** |
| **Balance 30 June 2016** | | – | – | **46,149** | **5,534** | **51,683** |
| **Carrying value** | | | | | | |
| As at 30 June 2015 | | 7,258 | 11,945 | 38,852 | 2,420 | 60,475 |
| **As at 30 June 2016** | | **7,258** | **32,453** | **48,644** | **2,186** | **90,541** |

**9. Property, Plant and Equipment (continued)**

The cost of work-in-progress included within Freehold Buildings and Plant and Equipment at 30 June 2016 is $57,928,000 (2015: $23,901,000). The majority of this amount relates to the cost of construction, fit-out and new equipment for Skellerup's new Dairy Rubberware Development and Manufacturing facility (Project Viking) at Wigram, Christchurch, New Zealand. Construction of the new building was completed in May 2016. Fit-out and the transfer of operations is planned to be complete by June 2017. Capital expenditure commitments at 30 June 2016 are $4,113,000 (2015: $27,818,000). The majority of these commitments are associated with Project Viking, including contractual arrangements for the construction and fit-out of the facility at Wigram.

**10. Intangible Assets**

The Group's intangible assets consist mainly of goodwill, software costs and land-use rights.

| | Note | Goodwill $000 | Software $000 | Other $000 | Total $000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance 1 July 2014** | | 45,006 | 8,329 | 117 | 53,452 |
| Additions | | 37 | 247 | – | 284 |
| Disposals | | – | (92) | – | (92) |
| Net foreign currency exchange differences | | 2,233 | 18 | 25 | 2,276 |
| **Balance 30 June 2015** | | 47,276 | 8,502 | 142 | 55,920 |
| Additions | | – | **385** | – | **385** |
| Disposals | | – | **(6)** | **(126)** | **(132)** |
| Net foreign currency exchange differences | | **(3,041)** | **(23)** | **(16)** | **(3,080)** |
| **Balance 30 June 2016** | | **44,235** | **8,858** | **-** | **53,093** |
| **Accumulated amortisation** | | | | | |
| **Balance 1 July 2014** | | – | 5,891 | 117 | 6,008 |
| Disposals | | – | (92) | – | (92) |
| Amortisation expense | 3 | – | 902 | – | 902 |
| Net foreign currency exchange differences | | | | 25 | 25 |
| **Balance 30 June 2015** | | – | 6,701 | 142 | 6,843 |
| Disposals | | – | **(6)** | **(126)** | **(132)** |
| Amortisation expense | 3 | – | **948** | – | **948** |
| Net foreign currency exchange differences | | – | | **(16)** | **(16)** |
| **Balance 30 June 2016** | | – | **7,643** | – | **7,643** |
| **Carrying value of goodwill and intangible assets** | | | | | |
| As at 30 June 2015 | | 47,276 | 1,801 | – | 49,077 |
| **As at 30 June 2016** | | **44,235** | **1,215** | – | **45,450** |

**Goodwill**

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

Separately recognised goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed.

The Group determines whether or not goodwill associated with items with indefinite useful lives is impaired at least on an annual basis. This requires certain assumptions being made in determining the recoverable amount of the cash-generating units, using a value-in-use discounted cash flow methodology, to which the goodwill has been allocated. The assumptions used in determining the recoverable amount and the carrying amount of goodwill are detailed below.

**10. Intangible Assets (continued)**

**Software**

Identifiable intangible assets, which are acquired separately or in a business combination, are capitalised at cost at the date of acquisition and stated at cost less any accumulated amortisation and impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software costs are recorded as intangible assets and amortised over a period of 10 years.

**Research and development costs**

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

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

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

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

**Impairment tests for goodwill**

***(i) Description of cash-generating units***

Goodwill acquired through business combinations has been allocated to the business units acquired. Subsequent business reorganisations within the Group have resulted in some original cash-generating units (CGU) being combined with other Group businesses. In such circumstances, the original goodwill has been allocated across the combined cash-generating unit to determine fairly the recoverable amount against the value in use. In the current year a business reorganisation resulted in the Thorndon and Ultralon Australia CGUs being combined with the Gulf CGU.

The goodwill allocated to each cash-generating unit is shown in the table below. The changes in goodwill recorded are attributable to exchange rate movements on the translation of the goodwill balances denominated in foreign currencies.

The net present value of future estimated cash flows exceeds the recoverable amount of goodwill allocated to each cash-generating unit based on a value-in-use calculation. A pre-tax discount rate of 11.41% (2015: 12.76%) has been applied to discount future estimated cash flows to their present values.

| Cash-generating unit | **2016 $000** | 2015 $000 |
|---|---|---|
| Gulf | **32,684** | 31,029 |
| Ambic | **7,406** | 9,296 |
| Deks | **3,714** | 4,040 |
| Thorndon | **–** | 1,751 |
| Stevens | **431** | 431 |
| Ultralon Australia | **–** | 729 |
| **Total goodwill** | **44,235** | 47,276 |

***(ii) Assumptions used to determine the recoverable amount***

The estimated future cash flows generated have been determined from the business plans and detailed budgets prepared by management as part of the annual business planning that is reviewed and approved by the Board of Directors. Such forecasts analyse and quantify a range of growth objectives which form the basis for determining the business growth and direction over the next five years.

For periods beyond 2016, the Group anticipates that business results will continue to improve due to new product developments, the benefits of established customer relationships and expansion into new and existing niche markets.

The estimated cash flow in perpetuity is represented by the realisation value of the net assets at a terminal growth rate of 1.5% per annum at the end of the fifth year.

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

**10. Intangible Assets (continued)**

**Revenue assumptions**
Revenue has been forecast to increase in a range of 3% to 20% per annum over the following five-year period in line with the Group's strategic business plans to develop and introduce new products, in addition to continuing to support and grow the Group's existing global customer relationships.

**Discount rate assumptions**
The discount rate is intended to reflect the time value of money and the risks specific to each cash-generating unit achieving its forecast cash flows. In determining the appropriate discount rate, regard has been given to the weighted average cost of capital of the Group, which has been updated as at 30 June 2016, to reflect the current market interest rates and the additional cost of capital applicable in the current risk environment.

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

**Market share assumptions**
In preparing forecasts, the Group's business plans show no loss of market share. The Group's strategy is to continue to expand in global markets, especially in North America and Europe. This is the case particularly for the Gulf cash-generating unit, which has dedicated manufacturing and distribution capabilities established in these markets.

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

***(iii) Sensitivity to assumption changes***

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

**11. Trade and Other Payables**

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

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

| | **2016 $000** | 2015 $000 |
|---|---|---|
| Trade payables | **10,298** | 10,104 |
| Employee entitlements | **1,986** | 2,264 |
| Sundry payables and accruals | **8,212** | 11,735 |
| GST payable | **1,017** | 939 |
| **Total trade and other payables** | **21,513** | 25,042 |

The average credit period on purchases of all goods and services represents an average of 32 days credit (2015: 35 days credit). The Group has financial risk management policies in place to ensure that all payables are met within acceptable terms and conditions of purchase.

## 12. Provisions

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

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

| | **2016 $000** | 2015 $000 |
|---|---|---|
| **Provisions** | | |
| Employee entitlements | **5,634** | 6,601 |
| Make-good | **3,082** | 3,191 |
| Warranties | **1,076** | 1,454 |
| **Total provisions** | **9,792** | 11,246 |
| Current | **8,644** | 8,569 |
| Non-current | **1,148** | 2,677 |
| **Total provisions** | **9,792** | 11,246 |

| | **Make-good $000** | **Warranties $000** |
|---|---|---|
| Balance 1 July 2014 | 3,191 | 1,264 |
| Additional provisions recognised | – | 1,061 |
| Reductions arising from payments/sacrifices of economic benefits | – | (823) |
| Reductions arising from remeasurement or settlement without cost | – | (96) |
| Net foreign currency exchange differences | – | 48 |
| Balance 30 June 2015 | 3,191 | 1,454 |
| Additional provisions recognised | – | **195** |
| Reductions arising from payments/sacrifices of economic benefits | **(109)** | **(281)** |
| Reductions arising from remeasurement or settlement without cost | **–** | **(206)** |
| Net foreign currency exchange differences | **–** | **(86)** |
| **Balance 30 June 2016** | **3,082** | **1,076** |

### Employee entitlements

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

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

***(ii) Long-service leave***

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

**12. Provisions (continued)**

***(iii) Defined contribution scheme***

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

**Make-good costs**

The provision for make-good costs represents the estimated future costs to the Group of decommissioning and relocating plant and equipment for its Dairy Rubber Development and Manufacturing activity to the new site at Wigram.

**Warranties**

In determining the level of provision required for warranties, the Group has made judgements in respect of the expected performance of products and the costs of rectifying any products that do not meet the customers' quality standards.

The provision for warranty claims represents the present value of the Directors' best judgement or estimate of the future outflow of economic benefits that will be required under the Group's various product warranty programmes. The estimate has been made on the basis of the expected performance of products, historical warranty trends, the costs of rectifying any products that do not meet the customers' quality standards and insurance arrangements the Group has in place. The actual cost may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

**13. Interest-bearing Loans and Borrowings**

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

After initial recognition, interest-bearing loans and borrowings are measured subsequently at amortised cost using the effective interest method.

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

| | **2016 $000** | 2015 $000 |
|---|---|---|
| **Balance 30 June 2016** | | |
| **Non-current liabilities** | | |
| **Secured at amortised cost** | | |
| Bank loans – carrying amount | **36,413** | 10,750 |
| Effective interest rate | **3.63%** | 4.69% |

The carrying amounts disclosed above approximate fair value.

The bank loans are provided under a $50 million multi-currency facility agreement with ANZ Bank New Zealand Limited (ANZ Bank) which has a review date of 29 June 2018.

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

Apart from the assets held by Skellerup Rubber Products Jiangsu Limited, some of the assets held by Tumedei SpA and some other minor assets, the carrying amount of tangible assets totalling $143.9 million is pledged as security to ANZ Bank to secure the above term loans.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset which necessarily takes a substantial period of time to prepare for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they occur. For the current year, $665,684 of interest costs were capitalised (2015: $252,693). Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 14. Contributed Equity

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

| | Number of Shares | Value $000 |
|---|---|---|
| Balance 1 July 2014 | 192,805,807 | 69,732 |
| Balance 30 June 2015 | 192,805,807 | 69,732 |
| **Balance 30 June 2016** | **192,805,807** | **69,732** |

All shares are fully paid and have no par value. Each ordinary share confers on the holder one vote at any shareholder meeting of the Company and carries the right to dividends.

As at 30 June 2016, there are also 1,947,533 redeemable ordinary shares on issue (2015: 1,947,533). These redeemable ordinary shares were issued by the Company on 26 October 2011, 1,947,533 in support of the Chief Executive Officer's Incentive Scheme, which is described in Note 17.

The Directors' objective is to ensure the entity continues as a going concern, as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Directors aim to provide a capital structure which:

- Provides an efficient and cost-effective source of funds;
- Is balanced with external debt to provide a secure structure to support the short and long-term funding of the Group; and
- Ensures that the ratio of funds sourced from shareholders and external debt is maintained proportionately at a level which does not create a credit and liquidity risk to the Group.

The Company is listed on the New Zealand Exchange and is, therefore, subject to continuous disclosure obligations to inform shareholders and the market of any matters which affect the capital of the Company. This includes changes to the capital structure, new share issues, dividend payments and any other significant matter which affects the creditworthiness or liquidity of the Group.

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

### 15. Finance Costs

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Interest on bank overdrafts and borrowings | **840** | 293 |
| Bank facility fees | **237** | 123 |
| Interest capitalised | **(666)** | (253) |
| **Total finance costs in Income Statement** | **411** | 163 |

### 16. Reserves

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Reserve balances | | |
| Cash flow hedge reserve | **657** | (476) |
| Foreign currency translation reserve | **(12,791)** | (4,618) |
| Employee share plan reserve | **471** | 408 |
| **Total reserves** | **(11,663)** | (4,686) |

**16. Reserves (continued)**

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

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Cash flow hedge reserve** | | | |
| Balance at the beginning of the year | | **(476)** | 2 |
| Gain/(loss) recognised on cash flow hedges: | | | |
| Foreign exchange contracts | | **1,801** | (672) |
| Interest rate swaps | | **(174)** | – |
| Income tax related to gains/(losses) recognised in other comprehensive income | 5 | **(494)** | 194 |
| Movement for the year | | **1,133** | (478) |
| **Balance at the end of the year** | | **657** | (476) |

Exchange differences relating to the translation of values from the functional currencies of the Group's foreign subsidiaries into New Zealand dollars are brought to account by entries made directly to the foreign currency translation reserve. A summary of movements is shown in the table below.

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Foreign currency translation reserve** | | | |
| Balance at the beginning of the year | | **(4,618)** | (14,414) |
| Gain/(loss) recognition: | | | |
| Foreign exchange movements on translation of foreign operations | | **(8,166)** | 10,184 |
| Income tax related to gains/(losses) recognised in other comprehensive income | 5 | **(7)** | (388) |
| Movement for the year | | **(8,173)** | 9,796 |
| **Balance at the end of the year** | | **(12,791)** | (4,618) |

The employee share plan reserve is used to record the value of share-based payments provided to employees, including key management personnel, as part of their remuneration. A summary of movements is shown in the table below.

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Employee share plan reserve** | | | |
| Balance at the beginning of the year | | **408** | 302 |
| Expense recognised for the year | 17 | **63** | 106 |
| **Balance at the end of the year** | | **471** | 408 |

**17. Share-based Incentive Scheme**

The Group operates a share-based incentive scheme for the Chief Executive Officer whereby redeemable ordinary shares were issued on 26 October 2011 and held in trust under a Deed which allows for the shares to convert to ordinary shares if fully paid, at the option of the Chief Executive Officer, in a future period.

The cost of the equity-settled transaction is recognised over the period in which the conditions are fulfilled. The cumulative expense recognised at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will vest ultimately. The expense or credit for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period. The cumulative expense over the vesting period is recognised through the employee share plan reserve in equity.

### 17. Share-based Incentive Scheme (continued)

No expense is recognised for equity that does not vest. Where an equity award is cancelled, it is treated as if it vested on the date of cancellation. No further expense is recognised and the cumulative balance in the employee share plan reserve transfers to retained earnings.

Any cash contribution made towards the equity share scheme at the grant date, has been offset against the initial recognised cost of the expired vesting period.

The redeemable ordinary shares issued on grant date have been fair valued under the terms defined by New Zealand International Financial Reporting Standards NZ IFRS-2. The fair value determined is being recognised as an employee incentive scheme expense over the estimated vesting period.

**(a) Recognised share-based employee incentive scheme**

The expense recognised for the Chief Executive Officer's incentive scheme is as follows:

| | **2016 $000** | 2015 $000 |
|---|---|---|
| Amount at the beginning of the year | **408** | 302 |
| Share-based incentive scheme expensed during the year | **63** | 106 |
| **Amount at the end of the year** | **471** | 408 |

**(b) The share-based incentive scheme**

The scheme has the following attributes:

- A total of 1,947,533 redeemable ordinary shares was issued to Skellerup Holdings Employee Trustee Company Limited (the Trustee) to hold on behalf of the Chief Executive Officer on 26 October 2011.
- The Trustee is a wholly owned subsidiary of Skellerup Holdings Limited and acts as a corporate trustee.
- The Trustee subscribed for the 1,947,533 redeemable ordinary shares at an issue price of $1.2534, being the volume-weighted average price for the 60 consecutive trading days prior to the date of issue.
- The redeemable ordinary shares have been paid to 1 cent.
- The redeemable ordinary shares carry only a fraction of the voting rights that would be exercised if the shares were fully paid ordinary shares. The fraction is equivalent to the proportion which is paid up to the total issue price.
- The redeemable ordinary shares are entitled to participate in any distribution of surplus assets on liquidation to the extent of the amount paid up on the shares.
- The redeemable ordinary shares are not eligible for dividends or other distributions until fully paid up and transferred from the Trustee to the Chief Executive Officer.
- The redeemable ordinary shares may be redeemed at the option of the Chief Executive Officer. The amount payable will be the balance of the issue price. Fifty percent of the shares vested on 26 October 2015 and a further fifty percent vest on 26 October 2016. The period in which the Chief Executive Officer can redeem the shares expires on 26 October 2018.
- When the redeemable ordinary shares have been fully paid and transferred to the Chief Executive Officer, the shares shall convert to ordinary shares and rank in all respects equally with the Group's ordinary shares.

**(c) Pricing model**

The redeemable ordinary shares have been fair valued using the Black-Scholes formula. The fair value has been determined as $471,000.

### 18. Earnings per Share

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

| | **2016 Cents per Share** | 2015 Cents per Share |
|---|---|---|
| Basic and diluted earnings per share | **10.65** | 11.38 |
| Basic and diluted earnings per share (excluding relocation costs) | **10.72** | 11.38 |
| Net tangible asset per share | **56.00** | 56.70 |

**18. Earnings per Share (continued)**

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

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Net profit for the year attributable to trading | 20,670 | 21,933 |
| Relocation costs as a result of the 2011 Canterbury Earthquakes | (145) | – |
| **Earnings used in the calculation of earnings per share** | 20,525 | 21,933 |

| | 2016 | 2015 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of earnings per share | 192,805,807 | 192,805,807 |

**19. Retained Earnings**

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Balance at the beginning of the year | 94,614 | 89,069 |
| Net profit for the year | 20,525 | 21,933 |
| Payment of dividends | (17,353) | (16,388) |
| **Balance at the end of the year** | 97,786 | 94,614 |

During the reported period, a dividend of 5.5 cents per share was paid on 15 October 2015 and 3.5 cents per share on 23 March 2016. All dividends paid were fully imputed with imputation tax credits totalling $6,642,415 (2015: $6,295,510).

**20. Financial Risk Management Objectives and Policies**

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

The Board reviews and agrees upon policies for managing financial risk.

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

Credit risk is managed through regular review of aged analysis of receivable ledgers. The credit risk exposures are the receivables recorded in Note 7.

Liquidity risk is monitored through the review of future rolling cash flow forecasts. These cash flow forecasts are updated on a weekly basis with particular emphasis placed on the prospective four-week period. These forecasts are monitored constantly against limitations of the entire debt facility.

**Risk exposures and responses**

***(i) Interest rate risk***

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

The Group's policy is to monitor its interest rate exposure and to hedge the volatility arising from interest rate changes by entering into interest rate swap contracts that cover a minimum of 25% and a maximum of 75% of the core debt. Core debt is defined as debt in excess of $15 million that is not expected to be repaid from available cash flows within an 18-month time horizon.

The level of debt is disclosed in Note 13. A reasonably expected movement in the interest rate would not have a material impact on profit or equity.

At balance date, the Group had the following mix of financial assets and liabilities exposed to interest rates risk. Details of financial instruments in place to manage this risk are disclosed in Note 21.

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 9,510 | 11,580 |
| **Financial liabilities** | | |
| Bank loans | 36,413 | 10,750 |
| **Net exposure** | (26,903) | 830 |

**20. Financial Risk Management Objectives and Policies (continued)**

***(ii) Foreign currency risk***

The Group imports raw materials and finished goods and exports finished goods to a number of foreign customers. The main foreign currencies traded are US dollars (USD), Euro dollars (EUR), Australian dollars (AUD) and British pounds (GBP).

The Group seeks to cover up to 100% of the net foreign currency cash flow forecast, for the next 12-month period, with foreign currency contracts. Where the foreign currency cash flows can be forecasted reliably beyond the future 12-month period, such cash flows may also be covered by foreign currency contracts of up to 50% of the forecast cash flows.

The Group also has translational currency exposures. Such exposures arise from subsidiary operating entities that transact in currencies other than the Group's functional currency. Currently, the Group does not hedge these exposures.

***Foreign currency net monetary assets***

As at 30 June 2016, the Group has the following net monetary assets in foreign currency values which are in different currencies from the subsidiary's base currency and will revalue either through the income statement or the statement of comprehensive income:

| | Cash and Cash Equivalents $000 | Receivables $000 | Payables $000 | Net Monetary Assets $000 |
|---|---|---|---|---|
| **30 June 2016** | | | | |
| USD | **1,228** | **1,927** | **1,087** | **2,068** |
| AUD | **1** | **20** | **10** | **11** |
| GBP | **1** | **75** | **9** | **67** |
| EUR | **114** | **123** | **212** | **25** |
| NZD | **215** | **22** | **14** | **223** |
| **30 June 2015** | | | | |
| USD | 664 | 4,274 | 1,342 | 3,596 |
| AUD | 16 | 1,761 | 312 | 1,465 |
| GBP | 1 | 625 | 4 | 622 |
| EUR | 81 | 1,280 | 34 | 1,327 |
| NZD | – | – | 52 | (52) |

The foreign-currency-denominated values, as shown in the table above, are converted to New Zealand dollars as follows:

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **2,118** | 1,133 |
| Trade and other receivables | **3,075** | 11,869 |
| | **5,193** | 13,002 |
| **Financial liabilities** | | |
| Trade and other payables | **1,894** | 2,453 |
| **Net exposure** | **3,299** | 10,549 |

**20. Financial Risk Management Objectives and Policies (continued)**

***Foreign currency sensitivity***

| | Net Profit after Tax | | Net Equity | |
|---|---|---|---|---|
| Higher/(Lower) | **2016 $000** | 2015 $000 | **2016 $000** | 2015 $000 |
| Foreign currency rates | | | | |
| Increase +10% | **(213)** | (679) | **(7,696)** | (7,502) |
| Decrease -5% | **123** | 393 | **4,455** | 4,343 |

Significant assumptions used in the foreign currency exposure sensitivity analysis are as follows:

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

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

(c) The Group's net exposure to foreign currency at balance date is representative of past periods and is expected to remain relatively consistent for the future 12-month period.

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

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

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

***(iii) Credit risk***

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

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

***(iv) Liquidity risk***

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

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

**20. Financial Risk Management Objectives and Policies (continued)**

***Maturity analysis of financial assets and liabilities***

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

| Balance 30 June 2016 | Zero to Six Months $000 | Seven to 12 Months $000 | One to Five Years $000 | More than Five Years $000 | Total $000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | **9,510** | **–** | **–** | **–** | **9,510** |
| Trade and other receivables | **38,760** | **106** | **104** | **9** | **38,979** |
| Derivatives | **1,273** | **–** | **–** | **–** | **1,273** |
| | **49,543** | **106** | **104** | **9** | **49,762** |
| **Financial liabilities** | | | | | |
| Trade and other payables | **21,149** | **193** | **171** | **–** | **21,513** |
| Interest-bearing loans | **–** | **–** | **36,413** | **–** | **36,413** |
| Derivatives | **157** | **–** | **174** | **–** | **331** |
| | **21,306** | **193** | **36,758** | **–** | **58,257** |
| **Net total** | **28,237** | **(87)** | **(36,654)** | **9** | **(8,495)** |

| Balance 30 June 2015 | Zero to Six Months $000 | Seven to 12 Months $000 | One to Five Years $000 | More than Five Years $000 | Total $000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 11,580 | – | – | – | 11,580 |
| Trade and other receivables | 44,801 | 149 | 142 | 10 | 45,102 |
| Derivatives | 32 | – | – | – | 32 |
| | 56,413 | 149 | 142 | 10 | 56,714 |
| **Financial liabilities** | | | | | |
| Trade and other payables | 24,581 | 327 | 122 | 12 | 25,042 |
| Interest-bearing loans | – | – | 10,750 | – | 10,750 |
| Derivatives | 694 | – | – | – | 694 |
| | 25,275 | 327 | 10,872 | 12 | 36,486 |
| **Net total** | 31,138 | (178) | (10,730) | (2) | 20,228 |

***Fair value***

The financial instruments that have been fair valued by the Group are detailed in Note 21 and have a fair value of $942,000 (2015: ($662,000)).

Under the NZIFRS, there are three methods available for estimating fair value of financial instruments.

The methods are:

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

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

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

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

**21. Financial Instruments**

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

**21. Financial Instruments (continued)**

**Recognition and derecognition**

All regular purchases and sales of financial assets are recognised on the trade date: i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. Gains and losses on financial assets are exclusive of interest and dividends, which are recognised separately.

***(i) Financial assets at fair value through profit or loss***

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

Detail of the Group's financial assets and liabilities are shown below. Significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis in which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in the preceding notes.

| **Financial Assets** | **Cash and Bank Balances $000** | **Trade and Other Receivables $000** | **Derivatives $000** | **Total Financial Assets $000** |
|---|---|---|---|---|
| **Balance 30 June 2016** | | | | |
| Fair value through profit and loss | **9,510** | **–** | **–** | **9,510** |
| Loans and receivables | **–** | **38,979** | **–** | **38,979** |
| Hedge instruments | **–** | **–** | **1,273** | **1,273** |
| **Total financial assets** | **9,510** | **38,979** | **1,273** | **49,762** |
| **Balance 30 June 2015** | | | | |
| Fair value through profit and loss | 11,580 | – | – | 11,580 |
| Loans and receivables | – | 45,102 | – | 45,102 |
| Hedge instruments | – | – | 32 | 32 |
| **Total financial assets** | 11,580 | 45,102 | 32 | 56,714 |

| **Financial Liabilities** | **Trade and Other Payables $000** | **Derivatives $000** | **Borrowings $000** | **Total Financial Liabilities $000** |
|---|---|---|---|---|
| **Balance 30 June 2016** | | | | |
| Hedge instruments | | **331** | | **331** |
| Other financial liabilities | **21,513** | | **36,413** | **57,926** |
| **Total financial liabilities** | **21,513** | **331** | **36,413** | **58,257** |
| **Balance 30 June 2015** | | | | |
| Hedge instruments | – | 694 | – | 694 |
| Other financial liabilities | 25,042 | – | 10,750 | 35,792 |
| **Total financial liabilities** | 25,042 | 694 | 10,750 | 36,486 |

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

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are recognised initially at fair value on the date on which a derivative contract is entered into and are remeasured subsequently to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

**21. Financial Instruments (continued)**

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

- For the purposes of hedge accounting, hedges are classified as:
- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

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

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

***(ii) Cash flow hedges***

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

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

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

***Derivative financial instruments***

Details of the derivatives held and their fair values at balance date were as follows:

| | **2016 $000** | 2015 $000 |
|---|---|---|
| **Current assets** | | |
| Forward currency contracts - cash flow hedge | **1,273** | 32 |
| **Total assets** | **1,273** | 32 |
| **Current liabilities** | | |
| Forward currency contracts - cash flow hedge | **157** | 694 |
| **Current liabilities** | **157** | 694 |
| **Non-current liabilities** | | |
| Interest rate swaps - cash flow hedge | **174** | – |
| **Non-current liabilities** | **174** | **–** |
| **Total liabilities** | **331** | 694 |
| **Net assets/(liabilities)** | **942** | (662) |

**21. Financial Instruments (continued)**

***Foreign exchange contracts***

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

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

| | Notional Amount | | Average Exchange Rates | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$000** | $000 | | |
| **Buy NZD/Sell EUR** | | | | |
| Maturing 2016: three to 12 months (2015: three to 12 months) | **3,647** | 1,382 | **0.5758** | 0.6512 |
| **Buy NZD/Sell GBP** | | | | |
| Maturing 2016: three to 12 months (2015: three to 12 months) | **2,388** | 1,472 | **0.4187** | 0.4722 |
| **Buy NZD/Sell USD** | | | | |
| Maturing 2016: one to 12 months (2015: three to 12 months) | **4,116** | 3,611 | **0.6560** | 0.6980 |
| **Buy NZD/Sell AUD** | | | | |
| Maturing 2016: three to 6 months (2015: three to 12 months) | **2,457** | 4,721 | **0.8955** | 0.9319 |
| **Buy GBP/Sell EUR** | | | | |
| Maturing 2016: three to 16 months (2015: three to 16 months) | **823** | 676 | **1.3127** | 1.3688 |

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

Movements in the cash flow hedge reserve are recorded in the Statement of Comprehensive Income.

***Interest rate swap agreements***

The Group seeks to fix a minimum of 25% and a maximum of 75% of its interest rate risk where debt exceeds $15 million. At 30 June 2016 the Group had $10 million fixed at a rate of 2.59% plus bank margin expiring 26 February 2018 and $10 million fixed at a rate of 2.64% plus bank margin expiring 26 February 2019.

The interest swap agreements are considered to be highly effective hedges as they are matched against forecast interest payments and any gain or loss on the contracts attributable to the hedge risk is taken directly to other comprehensive income. Amounts are transferred out of other comprehensive income and included in the measurement of the hedged transaction when the forecast interest payment is made.

Movements in the cash flow hedge reserve are recorded in the Statement of Comprehensive Income.

***Credit risk***

Credit risk arises from potential failure of counterparties to meet their obligations at the maturity dates of contracts. Because the counterparty of the above financial derivatives is the ANZ Bank New Zealand Ltd, there is minimal credit risk.

## 22. Related Parties

The consolidated financial statements incorporate the following significant companies:

### (a) Subsidiary companies

| Name of Entity | Principal Activities | Country of Incorporation | Holding 2016 | Holding 2015 | Balance Date |
|---|---|---|---|---|---|
| Skellerup Industries Limited* | Manufacturing and Sales | New Zealand | 100% | 100% | 30 June |
| Skellerup Growth Limited | Property | New Zealand | 100% | 100% | 30 June |
| Ambic Equipment Limited* | Manufacturing and Sales | UK | 100% | 100% | 30 June |
| Deks Industries Pty Limited* | Manufacturing and Sales | Australia | 100% | 100% | 30 June |
| Gulf Rubber Australia Pty Limited* | Manufacturing and Sales | Australia | 100% | 100% | 30 June |
| Gulf US Incorporated* | Distribution | USA | 100% | 100% | 30 June |
| Masport Incorporated* | Manufacturing and Sales | USA | 100% | 100% | 30 June |
| Skellerup Rubber Products Jiangsu Limited* | Manufacturing and Sales | China | 100% | 100% | 31 December |
| Tumedei SpA* | Manufacturing and Sales | Italy | 100% | 100% | 30 June |

**Held indirectly by the Parent company through its direct subsidiaries.*

### (b) Compensation of key management

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

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Short-term benefits** | | |
| Directors' fees | 420 | 314 |
| Senior management's salaries and incentives | 1,783 | 2,212 |
| Contribution to defined contribution scheme for senior management personnel | 61 | 85 |
| **Long-term benefits** | | |
| Share-based incentive scheme expensed during the year | 63 | 106 |

Mr John Strowger was appointed a Director of Skellerup on 9 March 2015. Mr Strowger is a partner of Chapman Tripp, the Group's legal advisors. Chapman Tripp has charged fees during the year amounting to $26,219 (2015: $86,948 excluding GST). The fees were charged on normal terms and conditions. There was $4,748 (2015: $11,714 excluding GST) outstanding at balance date relating to these transactions.

## 23. Lease Commitments

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether or not the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether or not the arrangement conveys a right to use the asset.

### Operating leases

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

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Payments recognised as an expense | | |
| - Minimum lease payments | 5,874 | 5,615 |
| Non-cancellable operating lease commitments | | |
| - Within one year | 4,296 | 5,063 |
| - After one year but not more than five years | 8,118 | 10,915 |
| - After more than five years | 680 | 3,691 |
| **Total minimum lease payments** | 13,094 | 19,669 |

### 24. Contingent Liabilities

| | **2016 $000** | 2015 $000 |
|---|---|---|
| Bank guarantee provided to the New Zealand Exchange | **75** | 75 |

The Group receives claims from time to time in relation to products supplied. Where the Group expects to incur a cost to replace or repair the product supplied and can reliably measure that cost, that cost is recognised. The Group has general liability and professional indemnity insurance in the event that there are warranty claims.

### 25. Significant Events after Balance Date

The Directors have agreed to pay a final dividend, fully imputed, of 5.5 cents per share on 13 October 2016, to shareholders on the register at 5.00pm on 30 September 2016. This dividend is not recorded in the financial statements.

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

### 26. New Accounting Standards, Amendments and Interpretations and IFRIC Interpretations

There is no new standard, amendment or interpretation, which has been issued and is effective, that has a significant impact on the Group. We have not yet completed a formal assessment of new standards, amendments and interpretations that have been issued and are not yet effective.

## Directors

### (a) Directors holding office during the year

| | |
|---|---|
| Sir Selwyn Cushing | (Non-Executive) |
| Elizabeth Coutts | (Independent) |
| Dr Ian Parton | (Independent) |
| John Strowger | (Independent) |
| David Mair | (Chief Executive) |

### (b) Directors' remuneration and other benefits

Directors' remuneration and other benefits required to be disclosed pursuant to section 211(1) of the Companies Act 1993 for the year ended 30 June 2016 were as follows:

| | Group | |
|---|---|---|
| | **2016 $000** | 2015 $000 |
| Sir Selwyn Cushing | **160** | 140 |
| Elizabeth Coutts | **100** | 81 |
| Dr Ian Parton | **80** | 70 |
| John Strowger | **80** | 23 |
| David Mair | **–** | – |
| **Total Directors' fees** | **420** | 314 |

| | | |
|---|---|---|
| **David Mair (remuneration as CEO)** | | |
| Base salary | **600** | 542 |
| Short term incentive | **–** | – |
| **Total cash remuneration** | **600** | 542 |
| KiwiSaver company contribution | **18** | 16 |
| Long-term incentive share scheme expense | **63** | 106 |
| **Other remuneration** | **81** | 122 |
| **Total remuneration** | **681** | 664 |

### Directors' Interests

Pursuant to section 140(2) of the Companies Act 1993 and section 299 of the Financial Markets Conduct Act 2013, the Directors named below have made a general disclosure of interest during the period 01 July 2015 to 15 August 2016 by a general notice disclosed to the Board and entered in the Company's Interest Register.

**Sir Selwyn Cushing**

- Interest in 13,163,234 shares held by H&G Limited following the purchase of 1,250,000 shares on 20 August 2015; 750,000 shares on 18 September 2015 and 547,065 shares on 18 February 2016.
- Interest in 100,000 shares held by SJ Cushing following the purchase of 100,000 shares on 02 March 2016.

**Liz Coutts**

- Interest in 876,690 shares held by Como Nominees Limited following the purchase of 100,000 shares during the period 20-28 August 2015; 100,000 shares during the period 23-29 September 2015 and 35,000 shares on 18 February 2016.
- Appointed Chair of Ports of Auckland Limited on 07 December 2015.
- Retired as Chair of Inland Revenue Risk and Assurance Committee on 31 March 2016.

**Ian Parton**

- Interest in 205,000 shares held by Bonaparte Trust following the purchase of 40,000 shares on 21 August 2015; 35,000 shares on 09 October 2015 and 30,000 shares on 02 May 2016.

**John Strowger**

- Interest in 118,320 shares held by FNZ Custodians Limited following the purchase of 76,000 shares on 02 October 2015.

**David Mair**

- Interest in 3,527,506 shares held by DM2 Investment Trust following the purchase of 500,000 shares on 20 August 2015 and 500,000 shares during the period 05-08 October 2015.

**Directors' Shareholdings**

Directors held interests in the following shares in the Company as at 30 June 2016.

| | Held with Non-beneficial Interest | Held by Associated Persons |
|---|---|---|
| Sir Selwyn Cushing | – | 15,273,826 |
| Elizabeth Coutts | – | 876,960 |
| David Mair | 2,046,444 | 3,527,506 |
| Dr Ian Parton | – | 205,000 |
| John Strowger | – | 118,320 |

**Employee Remuneration**

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

| Remuneration Range $000 | No. of Employees | Remuneration Range $000 | No. of Employees | Remuneration Range $000 | No. of Employees |
|---|---|---|---|---|---|
| 100-110 | 21 | 190-200 | 4 | 280-290 | 1 |
| 110-120 | 10 | 200-210 | 5 | 310-320 | 1 |
| 120-130 | 7 | 210-220 | 2 | 320-330 | 1 |
| 130-140 | 6 | 220-230 | 1 | 390-400 | 1 |
| 140-150 | 5 | 230-240 | 3 | 440-450 | 1 |
| 150-160 | 7 | 240-250 | 4 | 500-510 | 1 |
| 160-170 | 5 | 250-260 | 4 | 660-670 | 1 |
| 170-180 | 9 | 260-270 | 2 | 680-690 | 1 |
| 180-190 | 5 | 270-280 | 1 | | |

Remuneration includes salary, performance bonuses, employer's contributions to superannuation, health and insurance plans, motor vehicle and other sundry benefits received in their capacity as employees.

**Gender and Diversity as at 30 June 2016**

| | Directors | | Officers | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Male | **4** | 4 | **2** | 2 |
| Female | **1** | 1 | **0** | 0 |
| **Total** | **5** | 5 | **2** | 2 |

**Distribution of Ordinary Shares and Shareholders as at 15 August 2016**

| Size of shareholding | Number of shareholders | % of shareholders | Number of shares | % of Shares |
|---|---|---|---|---|
| 1 - 4,999 | 1,975 | 34.79 | 5,154,386 | 2.67 |
| 5,000 - 9,999 | 1,384 | 24.38 | 9,288,720 | 4.82 |
| 10,000 - 49,999 | 1,945 | 34.26 | 37,700,041 | 19.55 |
| 50,000 - 99,999 | 214 | 3.77 | 13,925,066 | 7.22 |
| 100,000 - 499,999 | 133 | 2.34 | 22,355,308 | 11.59 |
| 500,000 - 999,999 | 11 | 0.19 | 8,413,140 | 4.36 |
| 1,000,000 and over | 15 | 0.26 | 95,969,146 | 49.78 |
| **Totals** | **5,677** | **100.00%** | **192,805,807** | **100.00%** |

**Substantial Security Holders**

Pursuant to the Financial Markets Conduct Act 2013, the following parties had given notice as at 15 August 2016 that they were substantial security holders in the Company and held a relevant interest in the number of ordinary shares shown below:

| | Number of Shares | % |
|---|---|---|
| Sir Selwyn Cushing | 15,273,826 | 7.92 |
| Accident Compensation Corporation | 14,875,000 | 7.72 |

**Twenty Largest Shareholders as at 15 August 2016**

| | | Number of Shares | % |
|---|---|---|---|
| 1 | Accident Compensation Corporation | 13,738,000 | 7.13 |
| 2 | H & G Limited | 13,616,169 | 7.06 |
| 3 | Forsyth Barr Custodians Limited | 11,469,915 | 5.95 |
| 4 | Citibank Nominees (New Zealand) Limited | 7,856,155 | 4.07 |
| 5 | BNP Paribas Nominees (NZ) Limited | 5,838,110 | 3.03 |
| 6 | FNZ Custodians Limited | 4,264,590 | 2.21 |
| 7 | Custodial Services Limited | 3,781,467 | 1.96 |
| 8 | David William Mair & John Gordon Phipps | 3,527,506 | 1.83 |
| 9 | Superlife Trustee Nominees Limited | 3,308,314 | 1.72 |
| 10 | Maxima Investments Limited | 3,250,000 | 1.69 |
| 11 | Tea Custodians Limited Client Property Trust Account | 2,523,658 | 1.31 |
| 12 | National Nominees New Zealand Limited | 2,522,415 | 1.31 |
| 13 | HSBC Nominees A/C NZ Superannuation Fund Nominees Limited | 2,490,035 | 1.29 |
| 14 | Public Trust Forte Nominees Limited | 2,211,444 | 1.15 |
| 15 | New Zealand Permanent Trustees Limited | 1,970,000 | 1.02 |
| 16 | Guangqiang Chen | 1,616,815 | 0.84 |
| 17 | Seajay Securities Limited | 1,457,642 | 0.76 |
| 18 | PGG Wrightson Employee Benefits Plan Limited | 1,400,000 | 0.73 |
| 19 | HSBC Nominees (New Zealand) Limited A/C State Street | 1,247,118 | 0.65 |
| 20 | Mint Nominees Limited | 1,145,306 | 0.59 |

## Corporate Directory

**Directors**

Sir SJ Cushing, KNZM, CMG
Chairman

EM Coutts, ONZM, BMS, CA, CFIoD

AR Isaac, CNZM, BCA, FCA

DW Mair, BE, MBA

IM Parton, BE (Hons), Ph.D, DistFIPENZ, FIoD

WJ Strowger, LLB (Hons)

**Officers**

DW Mair, BE, MBA
Chief Executive Officer

GR Leaming, BCom, CA
Chief Financial Officer

**Registered Office**

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New Zealand

PO Box 74526
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Auckland 1546
New Zealand

Telephone: **+64 9 523 8240**

Email: **ea@skellerupgroup.com**

Website: **www.skellerupholdings.com**

**Legal Advisors**

Chapman Tripp
23 – 29 Albert Street
Auckland 1010
New Zealand

**Bankers**

ANZ Bank New Zealand Limited
23 – 29 Albert Street
Auckland 1010
New Zealand

**Auditors**

Ernst & Young
2 Takutai Square
Britomart
Auckland 1010
New Zealand

**Share Registrar**

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
New Zealand

159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

**Managing your shareholding online:**

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

**www.computershare.co.nz/investorcentre**

**General enquiries can be directed to:**

enquiry@computershare.co.nz
Private Bag 92119
Auckland 1142
New Zealand

Telephone: **+64 9 488 8777**

Facsimile: **+64 9 488 8787**

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

Images on front cover (Left to Right)

1. Check valve used in potable water applications
2. Drive shaft of a motor vehicle showing rubber coupling (in black in middle of photo)
3. Skellerup's famous Red Band™ gumboots

The wrap around image is our new Dairy Rubberware Development, Manufacturing and Distribution Facility in Wigram, Christchurch, New Zealand.

**Skellerup Holdings Limited**
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