# Appendix 4D
# Half Year Report
# For the half year ended 31 March 2011

| | |
|---|---|
| Name of entity: | **DULUXGROUP LIMITED** |
| ABN: | **42 133 404 065** |

| Half year ended<br>(current period) | Half year ended<br>('previous corresponding period' or 'prior period') |
|---|---|
| 31 March 2011 | 31 March 2010 |

**Results for announcement to the market** **$'000**

| | | | | |
|---|---|---|---|---|
| Consolidated revenue from operations | Up | 59% | to | 491,188 |
| Profit for the period attributable to shareholders | Up | 106% | to | 48,741 |

| **Dividends** | | Amount per security | Franked amount per security at 30% |
|---|---|---|---|
| Interim dividend – Ordinary | Cents | 7.5 | 7.5 |
| Previous corresponding period | | | |
| Interim dividend – Ordinary | Cents | NIL | NIL |

| | | |
|---|---|---|
| Record date for determining entitlements to the dividend: | Ordinary shares | 27 May 2011 |
| Payment date of dividend: | Ordinary shares | 17 June 2011 |
| The Company's Dividend Reinvestment Plan (DRP) will operate with respect to the interim dividend. The last date for receipt of election notices for participation in the interim dividend under the DRP: | Ordinary shares | 27 May 2011 |

| | Current period (Cents) | Previous corresponding period (Cents) |
|---|---|---|
| **Net tangible asset backing per ordinary security** | 10.03 | (39.96)[1] |

[1] Assumes that 366,992,120 shares on issue at 30 September 2010 were on issue at 31 March 2010. If the actual number on issue were used (six ordinary shares), the net tangible asset backing per ordinary security is (2,444,383,333) cents per ordinary share.

For commentary regarding the financial performance during the half year, financial position as at the half year end and any other significant information needed by an investor to make an informed assessment of DuluxGroup Limited and its controlled entities' results, please refer to the accompanying DuluxGroup Limited Profit Report.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

**Commentary on results for the half year**

*Queensland floods in the current period*

On 12 January 2011, DuluxGroup Limited announced that its main Australian manufacturing plant at Rocklea in Queensland was being temporarily shutdown in light of the flood conditions in Queensland, and subsequently confirmed that the production facility, distribution centre and office building located at the Rocklea facility had been subject to significant flooding. DuluxGroup has insurance arrangements in place in respect of flood damage, which are subject to a deductible amount that is not material to the Group. Claims made under the insurance arrangements are subject to an insurance assessment and recovery process.

The consolidated financial results presented for DuluxGroup for the half year ended 31 March 2011 include accounting for the impact of the Queensland floods. Impacts include recognition of impairment for assets damaged in the floods and associated lower depreciation, increased costs of production, one off costs for clean up and repairs related to the floods, and recognition of insurance income to compensate for repairs and replacement of assets, increased costs of production, and site cleaning costs. Not all amounts expected to be recovered through insurance are able to be recognised in the Income Statement and Balance Sheet of DuluxGroup at 31 March 2011 on the basis that the recognition criteria set out in the Australian Accounting Standards has not yet been satisfied. Instead these amounts are considered to be a contingent asset dependent on the outcome of the insurance assessment and recovery process.

Further it should be noted that given the ongoing impact to the business arising from lost sales, further repair and replacement costs and increased operating costs to replace production, DuluxGroup expects to accumulate further amounts which would be the subject of an insurance claim in the second half of the financial year ended 30 September 2011 which will be reported in its annual results.

Shareholders wanting analysis on the performance of the DuluxGroup business and the impact of the Queensland floods are encouraged to refer to the Profit Report dated 16 May 2011 accompanying this Half Year Report.

*Restructuring in the previous corresponding period*

On 21 July 2008, Orica Limited announced its intention to demerge the DuluxGroup business (formerly known as the Consumer Products business). This demerger was ultimately approved by the Supreme Court of Victoria on 9 July 2010 and effective at the close of business on the same day for accounting purposes.

Owing to the activities undertaken by Orica Limited in preparation for demerger of its DuluxGroup business, the consolidated financial results presented in the Appendix 4D for DuluxGroup for the half year ended 31 March 2010 do not reflect the full half year results for several operations that comprise DuluxGroup currently and at the time of the separation from Orica Limited. During the 2010 half year, as part of the preparation for the demerger, significant operating assets and liabilities owned by other entities within the Orica Group were legally acquired on a progressive basis by DuluxGroup Limited. These include the assets and liabilities of Paints Australia, Paints New Zealand and Selleys Yates on 1 December 2009 and the Malaysian operation on 1 March 2010. The results of these operations have only been included in the Appendix 4D from the date of acquisition by the Company, as required by applicable Australian Accounting Standards. Further as the Hong Kong and Papua New Guinea operations were only acquired by DuluxGroup Limited on 1 April 2010 and 30 June 2010 respectively, the results of these operations have not been included in the comparatives presented in the Appendix 4D.

Shareholders wanting pro forma comparative financial information on the entire DuluxGroup business which separated from Orica Limited are encouraged to refer to the Profit Report dated 16 May 2011 accompanying this Half Year Report. We note that this pro forma financial information has not been subject to review or audit.



**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

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**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Directors' Report

The directors of DuluxGroup Limited (the Company) present the financial report for the Company and its controlled entities (collectively 'the consolidated entity' or 'the Group' or 'DuluxGroup') in the form of Appendix 4D of the Australian Securities Exchange (ASX) Listing Rules for the half year ended 31 March 2011 and the auditor's review report thereon.

**Directors**

The directors of the Company during the half year and up to the date of this report are:

Peter Kirby, Chairman
Patrick Houlihan, CEO and Managing Director
Stuart Boxer, CFO and Executive Director
Gaik Hean Chew
Garry Hounsell
Andrew Larke
Judith Swales (appointment effective from 11 April 2011)

Directors were in office for the entire period unless otherwise stated. The office of Company Secretary is held by Simon Black.

**Review and results of operations**

A review of the operations of the consolidated entity during the half year and of the results of those operations is contained in the accompanying DuluxGroup Limited Profit Report.

**Events subsequent to balance date**

On 16 May 2011, the directors declared an interim dividend of 7.5 cents per ordinary share, fully franked, payable on 17 June 2011. The financial effect of this interim dividend is not included in the financial statements for the half year ended 31 March 2011 and will be recognised in the annual 2011 financial statements.

The directors have not become aware of any other significant matter or circumstance that has arisen since 31 March 2011, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

**Lead Auditor's Independence Declaration**

A copy of the lead auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 24.

**Rounding**

The amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest thousand dollars, the Company being in a class specified in the ASIC Class Order 98/100 dated 10 July 1998.

Signed on behalf of the Board in accordance with a resolution of the directors of the Company.

P M Kirby

Peter M. Kirby
Chairman

16 May 2011

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Consolidated Income Statement

For the half year ended 31 March:

| | Notes | **2011** **$'000** | 2010 $'000 |
|---|---|---|---|
| Revenue from sale of goods | 6 | **491,188** | 308,438 |
| Other income | 5 | **26,624** | 953 |
| **Expenses** | | | |
| Changes in inventories of finished goods and work in progress | | **(192)** | 6,518 |
| Raw materials and consumables used and finished goods purchased for resale | | **197,200** | 108,008 |
| Employee benefits expense | | **101,916** | 63,346 |
| Depreciation and amortisation expense | | **9,677** | 6,530 |
| Purchased services | | **71,211** | 45,340 |
| Repairs and maintenance | | **3,924** | 2,261 |
| Lease payments - operating leases | | **13,154** | 8,357 |
| Outgoing freight | | **22,270** | 13,506 |
| Other expenses | | **32,228** | 19,282 |
| Share of net profit of joint venture accounted for using the equity method | | **(529)** | (262) |
| | | **450,859** | 272,886 |
| **Profit from operations** | | **66,953** | 36,505 |
| Finance income | | **318** | 6 |
| Finance expenses | | **(11,258)** | (2,892) |
| **Net finance costs** | | **(10,940)** | (2,886) |
| **Profit before income tax expense** | | **56,013** | 33,619 |
| Income tax expense | 10 | **7,272** | 9,965 |
| **Profit for the half year** | | **48,741** | 23,654 |

| | **cents** | cents |
|---|---|---|
| **Earnings per share** | | |
| Earnings per share attributable to ordinary shareholders of DuluxGroup Limited: | | |
| Basic | **13.5** | **6.5** |
| Diluted | **13.3** | **6.5** |

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

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Consolidated Statement of Comprehensive Income

For the half year ended 31 March:

| | Notes | **2011 $'000** | 2010 $'000 |
|---|---|---|---|
| **Profit for the half year** | | **48,741** | 23,654 |
| **Other comprehensive income** | | | |
| Effective portion of changes in fair value of cash flow hedges | 10(c) | **(20)** | - |
| Foreign currency translation (losses)/gains on foreign operations | | **(2,480)** | 746 |
| Actuarial gain on defined benefit plan | 10(c) | **1,600** | - |
| Income tax on other comprehensive income | 10(c) | **(474)** | - |
| **Other comprehensive income for the half year, net of income tax** | | **(1,374)** | 746 |
| **Total comprehensive income for the half year** | | **47,367** | 24,400 |

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

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Consolidated Balance Sheet

As at:

| | Notes | **31 March 2011 $'000** | 30 September 2010 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **21,621** | 44,681 |
| Trade and other receivables | | **140,499** | 140,881 |
| Inventories | | **121,201** | 113,428 |
| Derivative financial assets | | **131** | 58 |
| Other assets | | **6,213** | 3,061 |
| **Total current assets** | | **289,665** | 302,109 |
| **Non-current assets** | | | |
| Trade and other receivables | | **6** | 88 |
| Derivative financial assets | | **781** | 1,278 |
| Investments accounted for using the equity method | | **2,609** | 2,080 |
| Property, plant and equipment | | **159,888** | 153,890 |
| Intangible assets | | **86,313** | 89,004 |
| Deferred tax assets | | **28,819** | 25,432 |
| Other assets | | **421** | 490 |
| **Total non-current assets** | | **278,837** | 272,262 |
| **Total assets** | | **568,502** | 574,371 |
| **Current liabilities** | | | |
| Trade and other payables | | **176,077** | 178,859 |
| Interest-bearing liabilities | | **14,518** | 12,289 |
| Derivative financial liabilities | | **264** | 305 |
| Current tax liabilities | | **5,092** | 6,419 |
| Provisions | | **19,574** | 21,073 |
| **Total current liabilities** | | **215,525** | 218,945 |
| **Non-current liabilities** | | | |
| Trade and other payables | | **175** | 133 |
| Interest-bearing liabilities | | **197,737** | 237,279 |
| Deferred tax liabilities | | **715** | 745 |
| Provisions | | **20,756** | 19,045 |
| Defined benefit liability | | **10,428** | 13,269 |
| **Total non-current liabilities** | | **229,811** | 270,471 |
| **Total liabilities** | | **445,336** | 489,416 |
| **Net assets** | | **123,166** | 84,955 |
| **Equity** | | | |
| Contributed equity | 8 | **175,581** | 174,323 |
| Reserves | | **(112,925)** | (111,027) |
| Retained earnings | | **60,510** | 21,659 |
| **Total equity** | | **123,166** | 84,955 |

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

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Consolidated Statement of Changes in Equity

For the half year ended 31 March:

| | Contributed equity $'000 | Share-based payments reserve $'000 | Cash flow hedging reserve $'000 | Foreign currency translation reserve $'000 | Common control reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 October 2010** | 174,323 | 1,925 | (162) | (15,088) | (97,702) | 21,659 | 84,955 |
| Profit for the half year | - | - | - | - | - | 48,741 | 48,741 |
| Other comprehensive income | - | - | (14) | (2,480) | - | 1,120 | (1,374) |
| **Total comprehensive income for the half year** | **-** | **-** | **(14)** | **(2,480)** | **-** | **49,861** | **47,367** |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Total changes in contributed equity | 1,258 | - | - | - | - | - | 1,258 |
| Share-based payments expense | - | 596 | - | - | - | - | 596 |
| Dividends paid | - | - | - | - | - | (11,010) | (11,010) |
| **Balance at 31 March 2011** | **175,581** | **2,521** | **(176)** | **(17,568)** | **(97,702)** | **60,510** | **123,166** |
| **Balance at 1 October 2009** | - | - | - | (7,826) | - | (29) | (7,855) |
| Profit for the half year | - | - | - | - | - | 23,654 | 23,654 |
| Other comprehensive income | - | - | - | 746 | - | - | 746 |
| **Total comprehensive income for the half year** | **-** | **-** | **-** | **746** | **-** | **23,654** | **24,400** |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Share-based payments expense | - | 405 | - | - | - | - | 405 |
| Policy difference within Group for common control transactions[1] | - | - | - | - | (88,586) | - | (88,586) |
| **Balance at 31 March 2010** | **-** | **405** | **-** | **(7,080)** | **(88,586)** | **23,625** | **(71,636)** |

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

(1) DuluxGroup Limited elected to account for prior period business combinations under common control at carrying value. As permitted by Australian Accounting Standards, certain of its subsidiaries, primarily DuluxGroup (New Zealand) Pty Ltd elected to apply purchase accounting in its own accounting books and records. On consolidation, the effect of this policy difference in relation to the valuation of the business assets and liabilities in New Zealand is reversed with the recognition of a Common Control Reserve to the extent that the fair value of the business assets and liabilities exceeded their carrying value at the date of acquisition.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Consolidated Statement of Cash Flows

For the half year ended 31 March:

| | **2011** **$'000** | 2010 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | **555,581** | 269,651 |
| Payments to suppliers and employees | **(499,708)** | (297,880) |
| Interest received | **318** | 6 |
| Interest paid | **(10,208)** | (2,892) |
| Income taxes paid | **(12,496)** | (5,779) |
| Insurance recoveries relating to Queensland floods | **14,500** | - |
| **Net cash inflow/(outflow) from operating activities** | **47,987** | (36,894) |
| **Cash flows from investing activities** | | |
| Payments for property, plant and equipment | **(18,976)** | (6,742) |
| Payments for intangible assets | **(29)** | (132) |
| Payments for purchase of businesses and controlled entities | **(4,480)** | (305,906) |
| Proceeds from joint venture distributions | **-** | 500 |
| Proceeds from sale of property, plant and equipment | **5** | 32 |
| **Net cash outflow from investing activities** | **(23,480)** | (312,248) |
| **Cash flows from financing activities** | | |
| Net movement in short term financing | **2,229** | (1,527) |
| Proceeds from long term borrowings | **134,000** | 428,382 |
| Repayment of long term borrowings | **(174,000)** | - |
| Proceeds from issue of ordinary shares | **1,258** | - |
| Dividends paid | **(11,010)** | - |
| **Net cash (outflow)/inflow from financing activities** | **(47,523)** | 426,855 |
| **Net (decrease)/increase in cash held** | **(23,016)** | 77,713 |
| **Cash at the beginning of the period** | **44,681** | 2,532 |
| Effects of exchange rate changes on cash | **(44)** | (2) |
| **Cash at the end of the half year** | **21,621** | 80,243 |
| | | |
| **Reconciliation of cash** | | |
| Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows: | | |
| Cash at bank and on hand | **18,817** | 4,572 |
| Cash at bank - restricted(1) | **2,804** | - |
| Funding - Orica Limited(2) | **-** | 75,671 |
| | **21,621** | 80,243 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

(1) DuluxGroup operates a customer loyalty programme, which is managed on behalf of DuluxGroup by a third party. Under the terms of this arrangement, DuluxGroup is required to maintain sufficient funds in a programme specific bank account to honour in full the potential redemption value of rewards by customers. The ability to use this cash is contractually restricted and has therefore been presented separately.

(2) DuluxGroup was part of Orica Limited until demerger at close of business on 9 July 2010. Prior to this date, transactional banking facilities for the operations of DuluxGroup were largely provided through a centralised treasury function within the Orica Group and as such receipts and payments were recorded through intra-group loans. Such transactions, which took place prior to demerger have been treated as cash flows as the transactions would have resulted in actual cash flows if DuluxGroup had maintained its own banking facilities.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report

## 1 Accounting policies

The significant accounting policies adopted in preparing the financial report of DuluxGroup Limited (the Company) and of its controlled entities (collectively 'the consolidated entity' or 'the Group' or 'DuluxGroup') are stated below to assist in a general understanding of this financial report.

### a. Basis of preparation

This financial report (Half Year Report) has been prepared on a historical cost basis, except for derivative financial instruments and investments in financial assets (other than controlled entities and joint ventures) which have been measured at fair value.

The financial report for the half year ended 31 March 2011 was approved by the Board of Directors on 16 May 2011. This financial report is presented in Australian dollars, which is DuluxGroup Limited's functional and presentation currency.

In addition, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup arising from the Queensland floods for the half year ended 31 March 2011.

This general purpose financial report for the half year reporting period ended 31 March 2011 has been prepared in accordance with the requirements of applicable Australian Accounting Standards including AASB 134 *Interim Financial Reporting*, Australian Interpretations and the *Corporations Act 2001*.

This Half Year Report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2010 prepared under Australian Accounting Standards including Australian Interpretations and the *Corporations Act 2001*, changes in accounting policies for the requirements summarised below and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Except as described below, the accounting policies applied by the Group in this Half Year Report are the same as those applied by DuluxGroup Limited in its consolidated financial statements for the year ended 30 September 2010. The standards relevant to the Group that have been adopted during the half year to 31 March 2011 are:

- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

The standards relevant to the Group that have been early adopted during the year are:

- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*
- AASB 2010-5 *Amendments to Australian Accounting Standards.*
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets.*
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets.*

These standards have had no significant impact on the financial report or have impacted disclosures only.

The standards and interpretations relevant to the Group that have not been early adopted are:

- AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* – applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 9 *Financial Instruments* – applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 2010-7 *Amendments to Australian Accounting Standards* – applicable for annual reporting periods beginning on or after 1 January 2013.

DuluxGroup expects to adopt these standards and interpretations in the annual financial report for the year ending 30 September 2011 and subsequent financial years - however they are not expected to have a significant impact on the financial results of DuluxGroup.

### b. Comparatives

Where applicable, comparatives have been adjusted to disclose them on the same basis as current period figures.

We draw your attention to Note 3 which describes the impact on the reported results of DuluxGroup arising from the transactions and restructuring activities undertaken as part of the demerger from Orica Limited for the half year ended 31 March 2010.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report (continued)

## 2 Queensland floods

On 12 January 2011, DuluxGroup announced that its main Australian manufacturing plant at Rocklea in Queensland was being temporarily shutdown in light of the flood conditions in Queensland, and subsequently confirmed that the production facility, distribution centre and office building located at the Rocklea facility had been subject to significant flooding.

DuluxGroup has insurance arrangements in place in respect of flood damage, which are subject to a deductible amount that is not material to the Group. Claims made under the insurance arrangements are subject to an insurance assessment and recovery process. The insurance arrangements are designed to cover property damage and business interruption, including damage to plant and equipment; damage to other assets, including inventory; clean up and repair costs; lost profit arising from sales lost as a direct result of damage to our facilities; and increased costs of operating to replace production to maintain revenue, e.g. incremental costs associated with third party tolling arrangements.

At 31 March 2011, the insurance assessment and recovery process is continuing. To the extent that the recognition criteria set out in the Australian Accounting Standards has been satisfied, management have recognised in other income recoveries of $26,036,000 for damaged inventory; replacement of property, plant and equipment (assessed based on current replacement cost); and increased operating, clean up and repair costs. During the half year, $14,500,000 has been received with the balance included in other receivables.

Given the ongoing impact to the business arising from lost sales, further repair and replacement costs and increased operating costs to replace production, DuluxGroup expects to accumulate further amounts which would be the subject of an insurance claim in the second half of the financial year ended 30 September 2011 which will be reported in its annual results.

**Contingent asset from Queensland floods**

Potential further insurance recoveries to be claimed pertaining to the half year ended 31 March 2011 (including recoveries for replacement of damaged property, plant and equipment) have not been recognised as a receivable at balance date as these amounts cannot be reliably estimated and are dependent on the insurance assessment and recovery process.

## 3 Businesses acquired

**2010**

**Demerger of DuluxGroup Limited and its controlled entities from Orica Limited**

On 21 July 2008, Orica Limited announced its intention to demerge the DuluxGroup business (formerly known as the Consumer Products business). This demerger was ultimately approved by the Supreme Court of Victoria on 9 July 2010 and effective at the close of business on the same day for accounting purposes.

Owing to the activities undertaken by Orica Limited in preparation for demerger of its DuluxGroup business, the consolidated financial results presented for DuluxGroup for the half year ended 31 March 2010 do not reflect the full half year results for several operations that comprise DuluxGroup currently and at the time of the separation from Orica Limited. During the 2010 half year, as part of the preparation for the demerger, significant operating assets and liabilities owned by other entities within the Orica Group were legally acquired on a progressive basis by DuluxGroup Limited. These include the assets and liabilities of Paints Australia, Paints New Zealand and Selleys Yates on 1 December 2009 and the Malaysian operation on 1 March 2010. The results of these operations have only been included in this consolidated financial report from the date of acquisition by the Company, as required by applicable Australian Accounting Standards. Further as the Hong Kong and Papua New Guinea operations were only acquired by DuluxGroup Limited on 1 April 2010 and 30 June 2010 respectively, the results of these operations have not been included in the comparatives presented in this half year financial report.

# Notes to the Half Year Report (continued)

## 3 Businesses acquired (continued)

As part of the activities undertaken by Orica Limited during the half year ended 31 March 2010 to prepare the DuluxGroup business for demerger, DuluxGroup acquired the following legal entities (100% unless otherwise stated):

- DuluxGroup (Australia) Pty Ltd on 1 December 2009;
- Dulux Holdings Pty Ltd on 1 December 2009; and
- DGL International (Malaysia) Sdn Bhd on 1 March 2010.

Also as part of the activities undertaken by Orica Limited to prepare the DuluxGroup business for demerger, DuluxGroup acquired the following business assets and liabilities:

- DuluxGroup business in New Zealand on 1 December 2009;
- DuluxGroup businesses in Australia not trading through DuluxGroup (Australia) Pty Ltd on 1 December 2009 (with certain employee liabilities and other assets only acquired as at 30 June 2010); and
- DuluxGroup businesses in Singapore not already trading through DGL International (Singapore) Pte Ltd on 25 January 2010.

These transactions occurred while under the common control of Orica Limited and for consolidation purposes have been accounted for as business combinations under common control at carrying value by DuluxGroup Limited. Consequently no acquisition accounting in the form of a purchase price allocation has been undertaken and therefore the assets and liabilities have not been remeasured to fair value nor has any goodwill arisen. Accordingly in the books of DuluxGroup all assets and liabilities continue to reflect their carrying values in the Orica Limited consolidated accounting records immediately prior to transfer to DuluxGroup using Orica Limited's accounting policies prior to the business combinations occurring.

DuluxGroup Limited elected to account for prior period business combinations under common control at carrying value. As permitted by Australian Accounting Standards, certain of its subsidiaries, primarily DuluxGroup (New Zealand) Pty Ltd elected to apply purchase accounting in its own accounting books and records. On consolidation, the effect of this policy difference in relation to the valuation of the business assets and liabilities in New Zealand is reversed with the recognition of a Common Control Reserve (reported in Shareholders' Equity) to the extent that the fair value of the business assets and liabilities exceeded their carrying value at the date of acquisition.

# Notes to the Half Year Report (continued)

## 3 Businesses acquired (continued)

The assets and liabilities recognised as a result of the acquisitions by the consolidated entity are as follows:

| **2010** | **$'000** |
|---|---|
| Consideration | |
| Cash paid and settled via loans with related entities | **306,590** |
| Net cash acquired | **(684)** |
| Total consideration | **305,906** |
| Book value of net assets of businesses/controlled entities acquired | |
| Trade and other receivables | **80,565** |
| Inventories | **103,518** |
| Investments | **1,956** |
| Property, plant and equipment | **132,759** |
| Intangibles including purchased goodwill | **58,507** |
| Deferred tax assets | **13,351** |
| Other assets | **19,554** |
| Trade and other payables | **(162,738)** |
| Interest-bearing liabilities | **(13,611)** |
| Provision for employee entitlements | **(3,095)** |
| Provision for restructuring and rationalisation | **(1,903)** |
| Current tax liabilities | **(6,955)** |
| Deferred tax liabilities | **(563)** |
| Environmental provisions | **(4,025)** |
| | **217,320** |
| Common control reserve | **88,586** |

## 4 Earnings per share (EPS)

| **As reported in the Consolidated Income Statement** | **2011 Cents per share** | 2010 Cents per share |
|---|---|---|
| **Total attributable to ordinary shareholders of DuluxGroup** | | |
| Basic earnings per share | **13.5** | 6.5 |
| Diluted earnings per share | **13.3** | 6.5 |
| | **Number** | Number |
| **Weighted average number of shares used as the denominator:** | | |
| **Number for basic earnings per share**[(1)] | **362,378,403** | 362,100,430 |
| Effect of the potential issue of shares as part of the Long Term Equity Incentive Plan and the Employee Share Investment Plan[(2)] | **4,891,690** | - |
| **Number for diluted earnings per share** | **367,270,093** | 362,100,430 |

(1) The weighted average number of shares for the period ended 31 March 2010 has been restated to reflect the change in the company's capital structure as a result of DuluxGroup's demerger from the Orica Group as if the change had occurred at the beginning of the comparative period.

(2) The calculation of the weighted average number of shares has been adjusted for the effect of these potential ordinary shares from the date of issue.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report (continued)

## 5 Other income

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Insurance recoveries | **26,036** | - |
| Royalty income | **288** | 124 |
| Other | **300** | 829 |
| | **26,624** | 953 |

## 6 Segment report

Segment information is presented in respect of the consolidated entity's reportable segments. The Chief Operating Decision Maker (CODM) for the Group has been assessed as the Group's CEO and Managing Director. The consolidated entity's operations are divided into four reportable segments comprising: Paints Australia, Paints New Zealand, Selleys Yates, and Offshore and Other.

The consolidated entity's policy is to transfer products internally at negotiated commercial prices. Other income includes royalties, profit on sale of property, plant and equipment, and net foreign exchange gains.

The major products and services from which the above segments derive revenue are:

| Defined reportable segments | Products/services |
|---|---|
| Paints Australia | Manufacture and supply of paints and other surface coatings to the decorative market in Australia for both consumer and professional markets. |
| Paints New Zealand | Manufacture and supply of paints and other surface coatings to the decorative market in New Zealand for both consumer and professional markets. |
| Selleys Yates | Manufacture and distribution of home improvement and garden care products in Australia and New Zealand for both consumer and professional markets. |
| Offshore and Other [1] | China and South East Asia coatings and home improvement businesses, Papua New Guinea coatings business and the powders and industrial coatings business in Australia and New Zealand. |

(1) At 31 March 2010, the Offshore and Other reportable segment did not include operations in Hong Kong or Papua New Guinea as these were acquired on 1 April 2010 and 30 June 2010 respectively (refer Note 3 for further details).

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report (continued)

## 6 Segment report (continued)

| **Reportable segments 2011 $'000** | Paints Australia | Paints New Zealand | Selleys Yates | Offshore and Other | Unallocated[2] | Consolidated |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | **281,664** | **39,590** | **116,365** | **53,569** | **-** | **491,188** |
| Inter-segment sales | **2,938** | **9,184** | **5,644** | **122** | **(17,888)** | **-** |
| Total revenue from sale of goods | **284,602** | **48,774** | **122,009** | **53,691** | **(17,888)** | **491,188** |
| Other income[1] | **26,134** | **(176)** | **427** | **518** | **(279)** | **26,624** |
| Total revenue and other income | **310,736** | **48,598** | **122,436** | **54,209** | **(18,167)** | **517,812** |
| **Results** | | | | | | |
| Profit/(loss) before net financing costs and income tax expense | **51,428** | **7,801** | **12,873** | **3,103** | **(8,252)** | **66,953** |
| **Profit / (loss) from operations** | **51,428** | **7,801** | **12,873** | **3,103** | **(8,252)** | **66,953** |
| Finance income | | | | | | **318** |
| Finance expense | | | | | | **(11,258)** |
| **Profit before income tax expense** | | | | | | **56,013** |
| Income tax expense | | | | | | **(7,272)** |
| **Profit for the financial year** | | | | | | **48,741** |
| Segment assets | **254,242** | **44,736** | **123,264** | **79,053** | **67,207** | **568,502** |
| Segment liabilities | **124,590** | **19,192** | **42,657** | **23,933** | **234,964** | **445,336** |
| Investments accounted for using the equity method | **-** | **-** | **2,609** | **-** | **-** | **2,609** |
| Acquisitions of property, plant and equipment and intangibles | **13,378** | **6,443** | **919** | **1,320** | **472** | **22,532** |
| Impairment of property, plant and equipment | **6,546** | **153** | **-** | **-** | **12** | **6,711** |
| Impairment of inventories | **6,153** | **237** | **-** | **348** | **-** | **6,738** |
| Impairment of trade receivables | **400** | **22** | **-** | **122** | **-** | **544** |
| Depreciation expense | **4,275** | **929** | **1,608** | **1,749** | **190** | **8,751** |
| Amortisation expense | **497** | **38** | **289** | **102** | **-** | **926** |
| Share-based payments | **466** | **40** | **90** | **-** | **-** | **596** |
| Share of net profit of joint venture accounted for using the equity method | **-** | **-** | **529** | **-** | **-** | **529** |

(1) Includes foreign exchange gains/(losses) in various reportable segments and recoveries from the Queensland floods of $26,036,000 in Paints Australia.

(2) Unallocated largely comprises centrally managed income, costs, assets and liabilities relating to properties, tax, treasury and DuluxGroup's defined benefit pension plan.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report (continued)

## 6 Segment report (continued)

| Reportable segments 2010 $'000 | Paints Australia | Paints New Zealand | Selleys Yates | Offshore and Other | Unallocated[3] | Consolidated |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | **181,367** | **28,282** | **68,388** | **30,401** | **-** | **308,438** |
| Inter-segment sales | **4,421** | **4,316** | **3,982** | **479** | **(13,198)** | **-** |
| Total revenue from sale of goods | **185,788** | **32,598** | **72,370** | **30,880** | **(13,198)** | **308,438** |
| Other income[1] | **(201)** | **(54)** | **87** | **(15)** | **1,136** | **953** |
| Total revenue and other income | **185,587** | **32,544** | **72,457** | **30,865** | **(12,062)** | **309,391** |
| **Results** | | | | | | |
| Profit / (loss) before net financing costs and income tax expense | **32,837** | **5,048** | **5,278** | **(713)** | **(5,945)** | **36,505** |
| **Profit / (loss) from operations** | **32,837** | **5,048** | **5,278** | **(713)** | **(5,945)** | **36,505** |
| Finance income | | | | | | **6** |
| Finance expense | | | | | | **(2,892)** |
| **Profit before income tax expense** | | | | | | **33,619** |
| Income tax expense | | | | | | **(9,965)** |
| **Profit for the financial year** | | | | | | **23,654** |
| Segment assets[2] | **238,989** | **37,377** | **129,634** | **80,807** | **87,564** | **574,371** |
| Segment liabilities[2] | **121,846** | **16,655** | **45,346** | **24,047** | **281,522** | **489,416** |
| Investments accounted for using the equity method | **-** | **-** | **1,718** | **-** | **-** | **1,718** |
| Acquisitions of property, plant and equipment and intangibles | **2,376** | **2,136** | **1,945** | **425** | **-** | **6,882** |
| Impairment/(reversal of impairment) of inventories | **1,250** | **(8)** | **106** | **75** | **-** | **1,423** |
| Impairment of trade receivables | **511** | **24** | **-** | **71** | **-** | **606** |
| Depreciation expense | **2,802** | **836** | **934** | **1,121** | **114** | **5,807** |
| Amortisation expense | **337** | **34** | **250** | **102** | **-** | **723** |
| Share-based payments | **185** | **26** | **193** | **1** | **-** | **405** |
| Share of net profit of joint venture accounted for using the equity method | **-** | **-** | **262** | **-** | **-** | **262** |

(1) Includes foreign exchange gains/(losses) in various reportable segments.
(2) Balance as at 30 September 2010.
(3) Unallocated largely comprises centrally managed income, costs, assets and liabilities relating to properties, tax and treasury.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report (continued)

## 7 Dividends

Dividends paid or declared in respect of the period year ended 31 March 2011 were:

On 16 May 2011, the directors declared an interim dividend of 7.5 cents per ordinary share, fully franked, payable on 17 June 2011. The financial effect of this interim dividend is not included in the financial statements for the half year ended 31 March 2011 and will be recognised in the annual 2011 financial statements.

The Company's Dividend Reinvestment Plan (DRP) will operate with respect to the interim dividend. The DRP pricing period will be the five trading days from 1 June 2011 to 7 June 2011 inclusive. No discount will be applied to the DRP price. Ordinary shares issued under the DRP will rank equally with all other ordinary shares.

## 8 Contributed equity

| | **2011 $'000** | 2010 $'000 |
|---|---|---|
| **Issued and fully paid:** | | |
| Ordinary shares | **175,581** | - |

Movements in fully paid ordinary shares on issue since 1 October 2009 were as follows:

| **Details** | **Number of shares** | **Issue price $** | **$'000** |
|---|---|---|---|
| **Ordinary shares** | | | |
| Balance at 1 October 2009 | 6 | 1.00 | - |
| Balance at 31 March 2010 | 6 | | - |
| Shares issued under the Orica Demerger Scheme(1) | 362,100,424 | 0.48 | 174,323 |
| Shares issued under the DuluxGroup ESIP plan(2) | 489,840 | - | - |
| Shares issued under the DuluxGroup LTEIP plan(3) | 4,401,850 | - | - |
| **Balance at 30 September 2010** | 366,992,120 | | 174,323 |
| Shares issued under the DuluxGroup dividend reinvestment plan(4) | 464,139 | 2.71 | 1,258 |
| **Balance at 31 March 2011** | **367,456,259** | | **175,581** |

(1) Under the Orica Demerger Scheme one DuluxGroup Limited ordinary share was issued for each Orica Limited ordinary share held at the Record Date for the demerger being 16 July 2010.

(2) Under the 2010 Employee Share Investment Plan (ESIP), eligible employees of the Group (with the exception of New Zealand employees) were invited to acquire DuluxGroup ordinary shares to the value of $500 (through a salary sacrifice). Eligible employees in New Zealand were offered to acquire ordinary shares to the value of NZ$390. DuluxGroup 'matched' this participation, providing shares up to the value of $500 (or NZ$390) to participating employees at no cost to the participant. In accordance with AASB 2 *Share-based Payment*, the accounting expense to the company for the matching was expensed at the time of the offer in the second half of the financial year ended 30 September 2010.

The number of DuluxGroup shares allocated was based on the market price at the time of allocation under the ESIP with 489,840 new shares issued. The offer was only open to full time and permanent part time employees who had been continuously employed within the DuluxGroup business for a period of three months prior to the date of the 2010 ESIP offer and specifically excluded members of the senior management team and directors.

A participating employee is entitled to receive all cash dividends paid on their DuluxGroup shares and to exercise the voting rights attaching to those shares from the date of allocation. Employees who leave DuluxGroup must salary sacrifice any remaining amount owed prior to becoming entitled to the shares. A share allocated to a participating employee under the ESIP has trade restrictions attached until the earlier of the end of three years after the date of allocation and the time when the participant ceases to be employed by DuluxGroup Limited or any of its controlled entities. At the end of the restriction period, the employee will be able to sell or otherwise deal with their DuluxGroup shares. A total of 1,341 employees participated in the ESIP.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report (continued)

## 8 Contributed equity (continued)

(3) Following the demerger of DuluxGroup Limited from the Orica Group on 9 July 2010, trading of DuluxGroup Limited shares commenced on the Australian Securities Exchange (ASX) on 12 July 2010. The DuluxGroup Long Term Equity Incentive Plan (LTEIP) has been established to incentivise executives to generate shareholder wealth.

Under the LTEIP, eligible executives are provided with an interest free, non-recourse loan from DuluxGroup for the sole purpose of acquiring shares in the Company. Executives may not deal with the shares while the loan remains outstanding and any dividends paid on the shares are applied (on an after-tax basis) towards repaying the loan. Executives are entitled to exercise the voting rights attaching to their DuluxGroup shares from the date of allocation of those DuluxGroup shares. The shares in DuluxGroup issued to the executives can be newly issued shares, purchased on market or reissued unvested shares. Shares issued under this plan in conjunction with non-recourse loans are accounted for as options. As a result, the amounts receivable from employees in relation to these loans are not recognised in the financial statements. Shares issued under this plan are recognised as treasury shares (refer below) with a share-based payments expense recognised in the income statement over the vesting period based on the fair value of the options. Shares purchased on-market under the plan are recognised as a share buy-back. Repayments of share loans are recognised as share capital. Under the July 2010 and subsequent LTEIP executive allocations, the shares are returned to DuluxGroup, subject to discretion retained by the Directors, if the executives leave DuluxGroup within the vesting period. Typically, the vesting period is three years, with performance tested following the announcement of annual results in the third year after a grant is made. For the grant made under the 2010 DuluxGroup LTEIP, a period of approximately three and a half years will apply, with testing expected to occur in November 2013. The share-based payment expese recognised during the half year ended 31 March 2011 for the 2010 DuluxGroup LTEIP was $596,000 (2010: $NIL) as the plan was only established in July 2010.

(4) The Company has established a dividend reinvestment plan under which holders of ordinary shares may be able to elect to have all or part of their dividend entitlements satisfied by the issue of new fully paid ordinary shares. In relation to the final dividend paid on 10 December 2010, 464,139 new shares were issued at a price of $2.71.

**Treasury shares**

As part of the Long Term Equity Incentive Plan and the Employee Share Investment Plan, a total of 4,891,690 shares have been issued to DuluxGroup (Employee Share Plans) Pty Ltd as trustee of the plans. These have been accounted for as treasury shares and therefore not reported as part of contributed equity.

## 9 Investments accounted for using the equity method

The consolidated entity has interests in the following entities:

| | **Percentage of ownership interest held at end of the half year** | | **Contribution to net profit** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Name of entity: | **%** | % | **$'000** | $'000 |
| DGL Camel Coatings Ltd (formerly Orica Camel Coatings Ltd)[1] | **50.0** | - | **-** | - |
| Pinegro Products Pty Ltd[2] | **50.0** | 50.0 | **529** | 262 |
| | | | **529** | 262 |

[1] Acquired on 30 April 2010 and incorporated on 31 October 2003.
[2] Acquired on 1 December 2009 and incorporated on 10 April 1979.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report (continued)

## 10 Income tax expense

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Income tax expense** | | |
| **a) Income tax expense recognised in the Consolidated Income Statement** | | |
| Current tax expense | **20,353** | 10,425 |
| Deferred tax expense | **(3,922)** | (460) |
| Over provision in prior years[1] | **(9,159)** | - |
| **Total income tax expense in the Consolidated Income Statement** | **7,272** | 9,965 |
| Deferred income tax benefit included in income tax expense comprises: | | |
| Increase in deferred tax asset | **(3,908)** | (39) |
| Decrease in deferred tax liabilities | **(14)** | (421) |
| | **(3,922)** | (460) |
| **b) Reconciliation of income tax expense to prima facie income tax expense** | | |
| Profit before income tax expense | **56,013** | 33,619 |
| Prima facie income tax expense calculated at 30% of profit before income tax expense | **16,804** | 10,086 |
| Tax effect of items which increase / (decrease) tax expense: | | |
| Variation in tax rates of foreign controlled entities | **86** | 167 |
| Entertainment | **149** | 116 |
| Non allowable share-based payments | **179** | 122 |
| Research and development | **(180)** | - |
| Share of net profit of associate | **(159)** | (79) |
| Non-assessable income | **(1,324)** | - |
| Tax consolidation adjustment[2] | **(9,397)** | - |
| Tax losses not recognised | **606** | 398 |
| Other foreign deductions | **-** | (472) |
| Deferred tax restatement for New Zealand tax rate change | **245** | - |
| Sundry items | **263** | (373) |
| **Income tax expense reported in the Consolidated Income Statement** | **7,272** | 9,965 |

(1) This largely comprises an over provision arising from changes to the tax consolidation adjustment recognised at 30 September 2010. Refer footnote 2 below for further details.

(2) On forming the Australian tax consolidated group effective from 19 July 2010, management undertook an exercise to calculate the impact of tax consolidation on the recognised values of deferred tax balances in Australia. The impact of tax consolidation was reflected in the last annual report at 30 September 2010 based on management's best estimates, taking into account the time frame available to prepare the exit calculations from the demerger date. Since 30 September 2010, management has continued to refine the tax exit calculation supported by independent valuation advice and have recognised a further deferred tax asset of $9,397,000 in the half year ended 31 March 2011, with a corresponding credit to income tax expense.

**c) Income tax expense recognised in other comprehensive income**

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Before tax $'000** | **Tax (expense)/ benefit $'000** | **Net of tax $'000** | Before tax $'000 | Tax (expense)/ benefit $'000 | Net of tax $'000 |
| Effective portion of changes in fair value of cash flow hedges | **(20)** | **6** | **(14)** | - | - | - |
| Actuarial gains on defined benefit plan | **1,600** | **(480)** | **1,120** | - | - | - |
| | **1,580** | **(474)** | **1,106** | - | - | - |

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Notes to the Half Year Report (continued)

## 11 Critical accounting judgements and estimates

Management determines the development, selection and disclosure of the consolidated entity's critical accounting policies, estimates and accounting judgements and the application of these policies and estimates. Management necessarily makes estimates and judgements that have a significant effect on the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the half year financial report are reasonable and in accordance with Australian Accounting Standards. Changes in the assumptions underlying the estimates may result in a significant impact on the financial statements. The most critical of these assumptions and judgements are:

*Current asset provisions*

In the course of normal trading activities, management uses its judgement in establishing the net realisable value of various elements of working capital – principally inventory and accounts receivable. Provisions are established for obsolete or slow moving inventories and bad or doubtful receivables. Actual expenses in future periods may be different from the provisions established and any such differences would affect future earnings of the Group.

*Property, plant and equipment and definite life intangible assets*

The Group's property, plant and equipment and intangible assets, other than indefinite life intangible assets, are depreciated / amortised on a straight line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives of assets at least annually but any changes to useful economic lives may affect prospective depreciation rates and asset carrying values.

*Impairment of assets*

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of those assets, or CGUs, is measured as the higher of their fair value less costs to sell and value in use. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate CGUs.

The determination of recoverable amounts requires the estimation and discounting of future cashflows. The estimation of the cashflows considers all the information available at balance date which may deviate from actual developments. This includes, among other things, expected revenue from sales of products, the return on assets, future costs and discount rates. Subsequent changes to the CGU allocation or to the timing and quantum of cash flows may impact the carrying value of the respective assets.

*Defined benefit superannuation fund obligations*

The expected costs of providing post-retirement benefits under defined benefit arrangements relating to employee service during the period are charged to the income statement. Any actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the consolidated statement of comprehensive income. In all cases, the superannuation costs are assessed in accordance with the advice of independent qualified actuaries but require the exercise of significant judgement in relation to assumptions for future salary and superannuation increases, long term price inflation and investment returns. While management believes the assumptions used are appropriate, a change in the assumptions used may impact the earnings and equity of the Group.

# Notes to the Half Year Report (continued)

## 11 Critical accounting judgements and estimates (continued)

*Legal proceedings – product specific and legal claims*

The nature of DuluxGroup's business means that the Company receives product-specific and general claims from various parties as part of the ordinary course of its business. These claims are evaluated on a case-by-case basis considering the information and evidence available as well as specialist advice as required to assess the appropriate outcome. However, the outcome of currently pending and future litigation cannot be predicted with certainty. Accordingly, an adverse decision in a lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and that could materially affect the financial position, results of operations or cash flows of the Group. Litigation and other judicial proceedings raise difficult and complex legal issues and are subject to many complexities. Upon resolution of a legal matter, the Group may be forced to incur charges in excess of the presently established provisions and related insurance coverage. Where it is considered probable that a future obligation will result in a material outflow of resources, then this is accounted for accordingly by the Group.

*Queensland Floods - insurance recoveries*

The Group's insurance receivable balances attributable to the Queensland floods are recognised when they meet the criteria specified under Australian Accounting Standards. The insurance claims arising from the Queensland flood cover a range of issues including material damage to inventories and property, plant and equipment, costs associated with clean up, and business interruption arising from lost sales and incremental costs of manufacturing. The claims are evaluated on a case-by-case basis considering the information and evidence available, and management necessarily applies its judgement in assessing whether the receipt should be recognised. Where the claims have been estimated by management, but do not meet the recognition criteria, they are treated as contingent assets and may qualify for recognition in the future.

# Notes to the Half Year Report (continued)

## 12 Contingent liabilities and contingent assets

DuluxGroup had contingent liabilities and contingent assets at 31 March 2011 in respect of:

*Orica Separation Deed*

The Separation Deed between Orica Limited and DuluxGroup Limited deals with certain commercial, transitional and legal issues arising in connection with the legal and economic separation of DuluxGroup from Orica Group. A key part of the Separation Deed is the agreement between the parties in relation to the 'Demerger Principle'. This fundamental underlying principle of the demerger is that, on and from the effective date of the demerger, DuluxGroup has the entire economic benefit, commercial risk and liabilities of all businesses to be conducted by DuluxGroup after the effective date and all former DuluxGroup businesses, as though DuluxGroup had always owned and operated those businesses. The principle also states that Orica Group will have the entire economic benefit, commercial risk and liabilities of all businesses to be conducted by Orica Group after the effective date, and any company, business or asset which is not a business to be conducted by DuluxGroup after the effective date or a former DuluxGroup business, as though Orica Group had always owned and operated those businesses. To support this principle, DuluxGroup and Orica Group indemnify each other against all claims, and liabilities relating to any claim brought by the other, relating to liabilities which are liabilities of their businesses or former businesses following the application of the Demerger principle. The Separation Deed also contains specific indemnities with respect to certain matters. Further details can be found in section 3.9.3 of the Demerger Scheme Booklet released to the ASX by Orica Limited on 31 May 2010.

*Deed of cross guarantee*

All of DuluxGroup Limited's Australian subsidiaries, excluding DuluxGroup Employee Share Plan Trust, are party to a Deed of Cross Guarantee pursuant to ASIC Class Order 98/1418. The terms of this Deed of Cross Guarantee include a provision that each party guarantees the debts of each other party on insolvency. DuluxGroup (Australia) Pty Ltd ACN 000 049 427 was also a party to Orica Limited's Deed of Cross Guarantee and remained a party to that Deed from the effective date of the demerger of DuluxGroup Limited from Orica Limited until 28 November 2010.

*Queensland floods*

DuluxGroup had contingent assets at 31 March 2011 in respect of insurance recoveries arising from the Queensland floods. Refer note 2 for further details.

## 13 Events subsequent to balance date

On 16 May 2011, the directors declared an interim dividend of 7.5 cents per ordinary share, fully franked, payable on 17 June 2011. The financial effect of this interim dividend is not included in the financial statements for the half year ended 31 March 2011 and will be recognised in the annual 2011 financial statements.

The directors have not become aware of any other significant matter or circumstance that has arisen since 31 March 2011, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

**Impact of Queensland floods (current period) and Demerger (prior period)**
Significantly, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup in the current period arising from the Queensland floods and Note 3 describing transactions and restructuring activities undertaken in the previous corresponding period in preparation for a demerger from Orica Limited.

# Directors' Declaration

In the directors' opinion:

(a) the financial statements and the notes set out on pages 5 to 22 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair value of the consolidated entity's financial position as at 31 March 2011 and of its performance for the half year ended on that date; and

  (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Peter M. Kirby
Chairman

16 May 2011

***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of DuluxGroup Limited:

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 March 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Alison Kitchen
*Partner*

Melbourne

16 May 2011

KPMG

## Independent auditor's review report to the members of DuluxGroup Limited

We have reviewed the accompanying half-year financial report of DuluxGroup Limited (the Company), which comprises the Consolidated Balance Sheet as at 31 March 2011, Consolidated Income Statement and Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year period ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Consolidated Entity comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year period.

*Directors' responsibility for the half-year financial report*

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2011 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of DuluxGroup Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of DuluxGroup Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2011 and of its performance for the half-year period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Alison Kitchen

*Partner*

Melbourne

16 May 2011