

# Financial Statements

Financial trends analysis	30
Key performance indicators	32
Board of Directors – biographies	34
Board of Directors	36
Corporate Governance	39
Report of the Auditor-General	40
Statements of financial performance	41
Statements of movements in equity	42
Statements of financial position	42
Statements of cashflows	44
Reconciliation of operating cashflows	46
Statement of accounting policies	47
Notes to financial statements	52
Management responsibility statement	70

## Industrial Research Limited and Subsidiaries

### Financial trends analysis

GROUP	FY2007 \$000'S	FY2006 \$000'S	FY2005 \$000'S	FY2004 \$000'S	FY2003 \$000'S
Operating revenue	55,018	73,812	60,165	57,716	62,483
Interest received	48	106	23	55	39
Gain on disposal of property, plant and equipment	1,060	9,494	–	332	–
Revenue from trading	53,910	64,212	60,142	57,329	62,444
Depreciation	5,399	6,517	6,448	6,524	5,285
Interest expense	1,035	1,913	1,465	1,359	1,018
Non-operating items	1,010	7,712	931	483	1,370
Earnings/(deficit) before interest, tax and non-operating items (EBIT*)	(2,016)	532	(6,068)	(3,753)	2,280
Net surplus/(deficit) before tax	(2,953)	507	(8,441)	(5,208)	(69)
Net surplus/(deficit) after tax	(5,653)	(1,634)	(5,371)	(4,037)	(546)

	FY2007 \$000'S	FY2006 \$000'S	FY2005 \$000'S	FY2004 \$000'S	FY2003 \$000'S
<b>FUNDS EMPLOYED</b>					
Equity	19,257	24,613	26,450	26,806	27,741
Borrowings	11,873	12,665	23,064	21,482	23,912
Other term liabilities	616	881	1,003	1,053	1,108
	31,746	38,159	50,517	49,341	52,761

#### Use of funds

Working capital	(3,202)	(1,629)	(1,567)	(437)	(1,285)
Non-current assets	34,948	39,788	52,084	49,778	54,046
	31,746	38,159	50,517	49,341	52,761

#### Gearing %

	39.25%	35.36%	46.76%	44.70%	46.49%
--	--------	--------	--------	--------	--------

\*Non-operating items includes employee termination costs, disposal and impairment of property plant and equipment and write off of goodwill.

## Industrial Research Limited and Subsidiaries

### Financial indicators

	FY2007 ACTUAL	FY2007 BUDGET	FY2006 ACTUAL	FY2005 ACTUAL
<b>Earnings performance</b>				
Revenue from trading (\$000's)	53,910	60,945	64,212	60,142
Earnings/(deficit) before interest, tax and non-operating items (EBIT*) (\$000s)	(2,016)	1,316	532	(6,068)
EBIT* margin (%)	-3.74%	2.16%	0.83%	-10.09%
Net surplus before tax (\$000's)	(2,953)	(2,453)	507	(8,441)
Net surplus after tax (\$000's)	(5,653)	(2,829)	(1,634)	(5,371)
EBIT* to average funds employed (%)	-5.78%	3.63%	1.21%	-12.34%
Return (EBIT*) on average equity (\$000s)	-9.19%	5.71%	2.08%	-22.79%
Return (EBIT*) on assets (%)	-3.95%	2.60%	0.97%	-10.00%
<b>Financial position</b>				
Current ratio	0.61	0.87	0.87	0.80
Quick ratio	0.63	0.50	0.94	0.94
Average equity ratio	0.43	0.46	0.47	0.44
Times interest covered	(1.95)	1.61	0.28	(4.14)
Gearing (debt component)	0.39	0.37	0.35	0.47
Crown nominal investment (\$000s)	19,257	21,782	24,613	26,450
<b>Other statistics</b>				
Revenue from trading per FTE (\$000s)	176.75	205.20	174.02	137.94
Number of staff (FTE's)				
- research teams	216.00	216.00	269.00	306.00
- research support	23.00	24.00	27.00	39.00
- general support and management	66.00	57.00	73.00	91.00

## Industrial Research Limited and Subsidiaries

### Key performance indicators

MEASURE	METHOD	TARGET	OUTCOME
<b>Enhanced Delivery Mechanisms</b>			
Strategic Review of platforms	Recommendations endorsed by management and board	November 2007	Platforms were reviewed for alignment with the existing strategy of IRL. These reviews have formed the basis of further development of the strategic and operational plans of the organisation.
High potential companies identified and engagement strategies developed	Identification completed, operational plans agreed for 07/08 activities	June 2007	Proceeding satisfactorily.
New Patents granted in New Zealand	Number - new	8	6
New Patents granted Overseas	Number - new	5	19
Licensing arrangements entered into.	Number - new	5	3
Joint ventures or formal associations	Number - new	3	10
Spin-out companies	Number	Nil	Nil
Spin-off companies	Number	1	One joint venture activity is under negotiation and was not completed by year's end. It is anticipated that this new arrangement will be now operating by the end of the 2007 calendar year.
New initiatives developed	Development of full operational plans for next Strategic Plan	Establishment of a template for development of the 2007 to 2012 strategy.	Completed satisfactorily.
<b>New Revenue Sources</b>			
Complete analysis of existing revenue sources	Opportunities and deficiencies identified, new revenue model	May 2007	Ongoing.
Case developed for a manufacturing RST fund	Case progressed with government	May 2007	IRL has been active through a range of forums including the Commercialising Research Action Group in advancing the particular needs of the manufacturing sector for dedicated research funds. A full range of discussions are taking place with various arms of Government and business with a view to creating a more positive environment for investment. The plans are in hand to work with the private sector to ensure that the new taxation treatments of R&D expenditures translating to increased engagement with industry.
Involvement in CoREs, R&D Consortia, etc.	Number - new	5	IRL has been included as a partner in 2 major renewals of CoRES and is actively associated with 2 others. We have a range of other investments of a collaborative nature but it is recognised that this is an area of performance that we need to improve.
R&D Joint Venture	Number - new	3	13
Successful Funding Bids	% of bids awarded	> 30%	The bidding process saw a higher than expected success rate. Of the total number of bids initially submitted, IRL has been successful in having over 50% of those proceed through to full consideration. IRL successfully secured new FRST investment totalling \$13.25m pa. This represents a 15% increase on this years' maturing investment.
<b>Effective Execution Strategies</b>			
Introduce comprehensive performance management	Balanced scorecard introduced	April 2007	Scorecard constructed for all business areas for implementation in 2007/08.
Review standard operating procedures and management information systems	Ongoing needs of established and investment / development schedule agreed	May 2007	Progress recorded. Ongoing.

## Industrial Research Limited and Subsidiaries

### Key performance indicators

MEASURE	METHOD	TARGET	OUTCOME
Establish operational planning mechanisms	High-level operational plan in existence	July 2007	On target.
New communication strategy developed	Plan agreed and resourced in 07/08 Budget	Agreed March 2007	Plan developed for phased implementation in 2007/08. New IRL logo introduced.
Contracts signed	\$ value of signed contracts	Budget	Contract pipeline targets were not achieved during the year. Major contributors to this were our business operations, particularly IRL-BioPharm, which was closed during the year as a consequence of a poor trading position. Revenue shortfalls for the year can be largely attributed to the fact that we have not realised the full number of contracts on our prospect list.
Contract delivery	% contracts delivered as promised	>90%	Contract delivery against expected outcomes is 92 percent

### Enhancing Science Quality

Establish a Science Investment process	SIP Agreed. Endorsed by the Board	July 2007	A project selection checklist was developed and piloted for project development and was used in the process of developing FRST bids for the year. In 2007/2008 these checklists will be incorporated into new project management systems designed to improve both the project selection and the project delivery performance of the company.
Refereed Publications	Number	80	87
Invited Conference papers	Number	40	49
Submitted Conference Papers	Number	90	146
Books/ Book Chapter	Number	6	5
Invited Presentations on technical information and R&D to customers & contracted clients, Community forums, Parliamentary talks	Number	6	36
Visiting Scientists (self funded)	Visits over 3 months	3	9

### General Organisational Health Measures

Revenue	Revenue/budget	Budget	Revenue performance has not met budget expectations during the year. Major shortfalls in revenue occurred as a result of the IRL-BioPharm operations and poor revenue generation, particularly during the first half of the year. Corrective action progressing satisfactorily.
EBIT	EBIT/budget	Budget	Close to budgeted result.
Cash flow	Operating cash flow	Budget	Measures introduced to improve fiscal controls and to focus on revenue collection saw an improvement in cashflow performance in later months of the year.
Staff / HR development	Health and Safety compliance	100%	Audits completed. IRL retained its secondary rating with ACC.
Staff Satisfaction	Annual staff survey	Improvement over 2006	Improvement achieved
Capital Investment	Equal to budget	100%	On track

# Board of Directors – biographies



## Brian Rhoades

Chairman  
BE (Hons), PhD

Brian Rhoades is a business advisor and professional director with extensive governance experience. Brian commenced his career as a lecturer in mechanical engineering at the University of Canterbury followed by manufacturing and general management positions within the AHI/Carter Holt Harvey Group. His most recent executive role was as Chief Executive of Sealord Products Ltd. He has broad industry experience as director or chairman of a wide range of organisations including the New Zealand Food and Beverage Exporters Council, Cold Storage Nelson, Forestry Corporation, NIWA, Grocorp Pacific, Salmond Smith Biolab, Port Marlborough, Trustbank Canterbury, Waitaki Biosciences and Extract Solutions. Brian is currently a Tertiary Education Commissioner, chairman of the Nelson Marlborough Institute of Technology Council, chairman of Nelson Electricity Ltd, and Nelson Millennium Centre trustee. He is a Fellow of the Institution of Professional Engineers of New Zealand and a Fellow and Council Member of the Institute of Directors.



## Craig Stobo

Deputy Chairman

BA (Hons) First Class in Economics, Otago;  
Wharton Business School, Advanced Management  
Programme, Pennsylvania.

Craig Stobo is an independent company director and entrepreneur. He has worked as a New Zealand diplomat, economist, investment banker, fund manager and management executive. He was CEO and Director of BT Funds Management NZ Ltd, an investment management company he was instrumental in establishing in 1992. While under his leadership from 2000 to 2004, BT was awarded Fund Manager of the Year twice and Best Place to Work in New Zealand. In 2004 he chaired the tax review, *Towards Consensus on the Taxation of Investment Income*, on reforms for the New Zealand savings and investment industry. Craig is chairman of AMP Multiplex Ltd (the management company for the listed trust AMP NZ Office Trust), chairman of OCG Consulting Ltd (an executive recruitment company), and holds directorships of Elevation Capital Ltd, Saturn Portfolio Ltd, Superpoints Ltd, Appello Services Ltd, Stobo Group Ltd and A H Stobo Ltd.



## Richard Nottage CNZM

Outgoing Director

MA (Hons), M Litt (OXON)

Richard Nottage held many senior positions in New Zealand's Ministry of Foreign Affairs and Trade, including Secretary (CEO) of the Ministry 1991–1999. He has served on the boards of directors of many New Zealand institutions including the Trade Development Board, Institute of Policy Studies, Centre of Strategic Studies, Asia 2000 Foundation and the Researched Medicines Industry Association. He is honorary vice-president of the New Zealand Institute of International Affairs, a director of the New Zealand Institute of Economic Research, and the Shuttleworth Axial Motor Company. He is a founding council member of the Commonwealth Association for Corporate Governance.



## Anita Mazzoleni

Director

BCom, LLB, CA, Barrister & Solicitor (NZ)

Anita Mazzoleni is an independent corporate finance adviser based in Auckland. She provides corporate finance and funding advice to New Zealand corporate's and central and local government entities in New Zealand and the Pacific. Anita has had a commercial career in industry and finance, focusing on the evaluation and funding of infrastructure projects, particularly in the energy sector, and emerging businesses in the life sciences sector. Anita has previously held senior roles at Contact Energy, Citibank, and Deloitte and is currently an associate commissioner with the Commerce Commission, assisting the Telecommunications Commissioner.



## Ian Parton

Director

BE (Hons), PhD

Ian Parton has had a career in engineering management and is now an independent company director based in Auckland. He was Managing Director of Meritec Group Ltd from 1987 to 2002. He was a founding director of Tanlaw Ltd, chairman of Bendon (formerly Ceramco) until its privatisation and was a Trustee of St Cuthberts College for 8 years. He is currently deputy chairman of Watercare Services Ltd, chairman of HTS-110 Ltd and chairman of VT Fitzroy Ltd. Ian is a chartered professional engineer and a Distinguished Fellow of the Institution of Professional Engineers of New Zealand. He is also a Fellow of the Institute of Directors.

# Board of Directors

**Under the Crown Research Institutes Act 1992, the operating principles of a CRI are to:**

- Undertake research for the benefit of New Zealand;
- Pursue excellence in all their activities;
- Comply with applicable ethical standards;
- Promote and facilitate the application of the results of research and technological developments;
- Be a good employer;
- Exhibit a sense of social responsibility by having regard to the interests of the community.

## Role of the Board of Directors

The Board has a responsibility to protect and enhance the value of the Group in the interests of the Group and the Crown as shareholder.

In terms of the Crown Research Institutes Act 1992 (CRI Act) and the Crown Entities Act 2004 this includes responsibility for:

- The preparation of and compliance with the Group's Statement of Corporate Intent;
- The overall management of the Group through the appointment of the Chief Executive and the monitoring of his performance.

From a strategic and governance perspective, the Board is responsible for:

- Setting the strategic direction and policy;
- Appointing and delegating responsibility for Industrial Research's management to the CEO;
- Monitoring the CEO's performance against established goals;
- Ensuring compliance with the law, accountability documents and government expectations;
- Ensuring the correct financial structure is in place.

## Composition of the Board

The Board establishment is between two and nine (but is normally six) non-executive directors who meet approximately

times per year and as required for strategic planning purposes. The directors are appointed by the shareholding Ministers in accordance with section 7 of the Crown Research Institutes Act 1992. The normal term of appointment is three years with reappointment at the discretion of the shareholding Ministers. The Board reviews its performance and the performance of each director annually. The formal evaluations are submitted to shareholding Ministers each year.

## Composition of subsidiaries

The following persons held the office of director representing the interests of Industrial Research Limited on various subsidiary and associate company boards of directors. Except where disclosed elsewhere, no director of a subsidiary or associate company received any directors' fees or other benefits as a director.

### IRL-BioPharm Limited

Closed November 2006

### Innovation Finance Limited

Undertakes investment in business opportunities and provides seed funding for scientific and technology opportunities.

A Mazzoleni (chair), C Stobo, J Walley, A Coupe, J Cunningham

## Superlink developments Limited

Superlink developments Limited  
Holds intellectual property which is licensed out.

B Rhoades (chair from 29 August 2006 – replacing E M Coutts (R) 30 June 2006), S G Coffey (from 29 August 2006, replacing T Price), T Price (replaced N Kirkpatrick 3 January 2006 – August 2006), J McDonald

## Measurement Standards Laboratory of NZ Ltd

Non-trading

S G Coffey

## GlycoSyn Technologies Ltd

Non-trading

S G Coffey

## Composition of associates

### MPT-Matcor Pte Limited

S G Coffey

### HTS-110 Limited

A Coupe, M Dossor, J Maguire, A Mazzoleni, I Parton

### Damping Systems Limited

S G Coffey

## Register of interests

In conjunction with each Board meeting, the directors have declared the following interests:

**B Rhoades** – Principal, Brian L Rhoades and Associates Limited; Chairman, Council of Nelson-Marlborough Institute of Technology; Chairman, Nelson Electricity Limited; Commissioner, Tertiary Education Commission.

**C Stobo** – Director Elevation Capital Ltd, Saturn Portfolio Management Ltd, Superpoints Ltd, Southwest Trustees Ltd, Appello Services Ltd, AMP Multiplex Management Ltd, OCG Consulting Ltd, Stobo Group Ltd and A H Stobo Ltd.

**R F Nottage** – Director of Shuttleworth Axial Motor Company Ltd and NZ Institute of Economic Research.

**A Mazzoleni** – Director, Maz Group Ltd; Associate Member, Commerce Commission; Director, HTS-110.

**I M Parton** – Chairman, HTS-110 Ltd; Chairman, VT Fitzroy Ltd; Deputy Chairman, Watercare Services Ltd, Trustee, AUEA Charitable Trust.

## Information used by Directors

No member of the Board of Industrial Research Limited, or any subsidiary, issued a notice requesting to use information received in their capacity as directors which would not otherwise have been available to them.

## Indemnification and insurance of officers and Directors

The Parent indemnifies all directors named in this report, and current and former officers of the Group against all liabilities (other than that to the Parent or member of the Group) which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance.

## Insurance cover on liability or costs of any member

During the year, the directors' and officers' liability insurance was renewed to cover risks normally covered by such policies arising out of acts or omissions of directors and employees in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious or willful acts or omissions. The insurance cover is provided by QBE Insurance (International) and Vero Liability Insurance (NZ). The cost of the cover for the year to 30 November 2006 is \$29,600.

	IRL BOARD	AUDIT FINANCE & RISK COMMITTEE	INNOVATION FINANCE COMMITTEE	REMUNERATION COMMITTEE *
B Rhoades (Chair)	11	6	N/A	1
C Stobo	9	7	3	N/A
R Nottage	10	1 (otherwise N/A)		1
A Mazzoleni	12	8	4	N/A
I Parton	11	7	N/A	1

\*Committee met only once

## Directors' remuneration

	IRL BOARD FEES (\$)	SUB-COMMITTEE FEES (\$)	SUBSIDIARY FEES (\$)	IRL BOARD FEES (\$)	SUB-COMMITTEE FEES (\$)	SUBSIDIARY FEES (\$)
IRL BOARD OF DIRECTORS	2007			2006		
B Rhoades	45,000	6,100	–	–	–	–
R F Nottage	22,500	1,400	–	20,300	1,650	15,000
C Stobo	28,125	3,300	10,000	25,450	7,779	22,900
A Mazzoleni	22,500	17,850	24,000	20,300	6,938	33,600
I M Parton	22,500	4,700	38,750	20,300	7,912	28,800
E M Coutts (res. June 2006)	–	–	–	40,900	1,333	31,600
D A Chapman (res. June 2006)	–	–	–	20,300	1,338	–
<b>Total</b>	<b>140,625</b>	<b>33,350</b>	<b>72,750</b>	<b>147,550</b>	<b>26,950</b>	<b>131,900</b>

### External Directors of Subsidiaries

A Coupe	–	–	14,000	–	–	10,000
J Cunningham	–	–	10,000	–	–	10,000
J L Walley	–	–	10,000	–	–	10,000
<b>Total</b>	<b>140,625</b>	<b>33,350</b>	<b>106,750</b>	<b>147,550</b>	<b>26,950</b>	<b>161,900</b>

## Employees

Industrial Research's employment philosophy is to recruit and retain high calibre staff. The number of employees within the Group receiving remuneration and benefits above \$100,000 are included in the following table. During the year, compensation payments were made to 25 employees totalling \$1,596,078\* (2006: 54 employees totalling \$3,210,000).

	FY2007	FY2006
\$440,000 – \$449,999	1	–
\$430,000 – \$439,999	1	–
\$370,000 – \$379,999	1	–
\$320,000 – \$329,999	1	–
\$300,000 – \$309,999	1	–
\$260,000 – \$269,999	–	1
\$240,000 – \$249,999	–	1
\$230,000 – \$239,999	–	1
\$210,000 – \$219,999	3	2
\$200,000 – \$209,999	–	2
\$190,000 – \$199,999	–	1
\$180,000 – \$189,999	2	1
\$170,000 – \$179,999	–	2
\$160,000 – \$169,999	1	3
\$150,000 – \$159,999	4	2
\$140,000 – \$149,999	2	2
\$130,000 – \$139,999	4	3
\$120,000 – \$129,999	5	7
\$110,000 – \$119,999	13	8
\$100,000 – \$109,999	8	12

\*Includes compensation payments made to 19 science staff and six non-science employees.

# Corporate Governance

## Key policies

The Board is responsible for setting and determining key policies. Approved policies cover such areas as delegations of authority, risk management, treasury, regulatory compliance and insurance. The delegations policy provides authority and responsibilities of staff and prescribes the process of financial delegation. The levels of financial delegation are reviewed periodically. Compliance with the many legal requirements under which the business operates is of utmost importance to the Board. Industrial Research takes compliance with these statutes seriously and there is a constant process of initiatives to improve the level of compliance.

## Auditors

The Board of Directors ratified the Auditor General's appointment of PriceWaterhouseCoopers as the auditors for the Group. The Board has adopted a policy to maintain the independence of the external auditors.

## Board committees

The Board has two committees. The membership and terms of reference for the committees are reviewed regularly by the Board.

### Audit and Risk Committee

Membership: A Mazzoleni (chair to March 2007), C Stobo (chair from March 2007), I M Parton, B Rhoades

The function of the Audit, and Risk Committee is to assist the Board in carrying out its responsibilities regarding the following aspects:

- Management's accounting practices;
- Risk management;
- Policies and controls relative to the company's financial results;
- Review and make appropriate enquiry into the audit of the company's accounts by the external auditors;

- Ensure compliance with statutory legislation;
- Investments in new activities, business entities or joint ventures;
- Divestment of existing activities or business entities;
- Capital expenditure valuations;
- Monitoring the investment portfolio of the Parent to improve the efficiency of the overall process at Board level.

This committee normally meets at least eight times per year.

### Remuneration Committee

Membership: B Rhoades (chair from September 2006, replacing C Stobo), C Stobo, I M Parton, R F Nottage

This committee assists the Board in determining remuneration for the chief executive officer. It also reviews remuneration and performance reviews of the executives who report directly to the chief executive officer. The Remuneration Committee met once on a formal basis to consider issues under its terms of reference from the Board. Its primary business was the implementation of a new market-based remuneration system for all staff.

# Report of the Auditor-General

To the readers of Industrial Research Limited and Group's financial statements for the year ended 30 June 2007



The Auditor-General is the auditor of Industrial Research Limited (the company). The Auditor-General has appointed me, Fred Hutchings, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the company, on his behalf, for the year ended 30 June 2007.

## Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 41 to 69:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - > the company's financial position as at 30 June 2007; and
    - > the results of operations and cash flows for the year ended on that date.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 14 September 2007, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

## Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;

- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

## Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company and group as at 30 June 2007. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992, the Public Finance Act 1989 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001, section 21(1) of the Crown Research Institutes Act 1992 and the Public Finance Act 1989.

## Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in the Company other than in our capacity as auditors.

Fred Hutchings  
PricewaterhouseCoopers  
14 September 2007

On behalf of the Auditor-General, Wellington, New Zealand

## Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Industrial Research Limited and Group for the year ended 30 June 2007 included on Industrial Research Limited's website. The company's board is responsible for the maintenance and integrity of the Industrial Research Limited website. We have not been engaged to report on the integrity of the Industrial Research Limited website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 14 September 2007 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Industrial Research Limited and Subsidiaries**
**Statements of financial performance** for the year ended 30 June 2007

The statements should be read in conjunction with the accompanying notes.

	NOTES	GROUP			PARENT	
		2007 ACTUAL \$'000	2007 BUDGET [UNAUDITED] \$'000	2006 ACTUAL \$'000	2007 ACTUAL \$'000	2006 ACTUAL \$'000
Operating revenue	2	<b>55,018</b>	61,993	73,812	<b>54,776</b>	73,364
Operating expenses	3	<b>(57,971)</b>	(64,446)	(73,305)	<b>(55,123)</b>	(68,167)
<b>Operating surplus/(deficit) before income tax</b>		<b>(2,953)</b>	(2,453)	507	<b>(347)</b>	5,197
Income tax	9	<b>(2,700)</b>	(376)	(2,141)	<b>(2,700)</b>	(4,311)
<b>Operating surplus/(deficit) for the year</b>		<b>(5,653)</b>	(2,829)	(1,634)	<b>(3,047)</b>	886
<b>Operating surplus/(deficit) comprises:</b>						
Operating surplus/(deficit) from continuing activities:						
Operating surplus/(deficit) from trading activities		<b>(1,896)</b>	(2,706)	778	<b>(2,328)</b>	(466)
Write down of deferred tax asset		<b>(2,700)</b>	–	(3,787)	<b>(2,700)</b>	(3,787)
Gain on disposal of property, plant and equipment		<b>1,060</b>	1,024	9,494	<b>1,062</b>	9,523
Gain on sale of associate to subsidiary		–	–	–	<b>3,015</b>	–
Operating surplus/(deficit) from continuing activities		<b>(3,536)</b>	(1,682)	6,845	<b>(951)</b>	5,270
Operating surplus/(deficit) from discontinued activities		<b>(2,117)</b>	(1,147)	(8,479)	<b>(2,096)</b>	(4,384)
		<b>(5,653)</b>	(2,829)	(1,634)	<b>(3,047)</b>	886

**Industrial Research Limited and Subsidiaries**  
**Statements of movements in equity** for the year ended 30 June 2007

The statements should be read in conjunction with the accompanying notes.

	NOTES	GROUP			PARENT	
		2007 ACTUAL \$'000	2007 BUDGET [UNAUDITED] \$'000	2006 ACTUAL \$'000	2007 ACTUAL \$'000	2006 ACTUAL \$'000
<b>Net surplus/(deficit) for the year, comprising</b>						
Parent shareholders interest	6	(5,653)	(2,829)	(1,634)	(3,047)	886
Amalgamation adjustment	13	–	–	–	–	(8,600)
<b>Other recognised revenues and expenses</b>						
Foreign currency translation reserve	5	(13)	–	(203)	–	–
<b>Total recognised revenues and expenses</b>		<b>(5,666)</b>	<b>(2,829)</b>	<b>(1,837)</b>	<b>(3,047)</b>	<b>(7,714)</b>
Contribution from owners	4	310	310	–	310	–
<b>Movements in equity for the year</b>		<b>(5,356)</b>	<b>(2,519)</b>	<b>(1,837)</b>	<b>(2,737)</b>	<b>(7,714)</b>
<b>Equity at beginning of year</b>		<b>24,613</b>	24,301	26,450	<b>23,244</b>	30,958
<b>Equity at end of year</b>		<b>19,257</b>	21,782	24,613	<b>20,507</b>	23,244

**Industrial Research Limited and Subsidiaries**  
**Statements of financial position** as at 30 June 2007

The statements should be read in conjunction with the accompanying notes.

	NOTES	GROUP			PARENT	
		2007 ACTUAL \$'000	2007 BUDGET [UNAUDITED] \$'000	2006 ACTUAL \$'000	2007 ACTUAL \$'000	2006 ACTUAL \$'000
<b>EQUITY</b>						
Share capital	4	24,560	24,560	24,250	24,560	24,250
Reserves	5	–	–	(24)	–	–
Retained earnings	6	(5,303)	(2,778)	387	(4,053)	(1,006)
<b>Total equity</b>		<b>19,257</b>	21,782	24,613	<b>20,507</b>	23,244
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
Payables and accruals	10	616	4,627	881	616	881
Borrowings	7	11,873	12,477	12,665	11,873	12,665
Advances from subsidiaries		–	–	–	9,209	9,035
<b>Total non-current liabilities</b>		<b>12,489</b>	17,104	13,546	<b>21,698</b>	22,581

## Industrial Research Limited and Subsidiaries

### Statements of financial position as at 30 June 2007

The statements should be read in conjunction with the accompanying notes.

	NOTES	GROUP			PARENT	
		2007 ACTUAL \$'000	2007 BUDGET [UNAUDITED] \$'000	2006 ACTUAL \$'000	2007 ACTUAL \$'000	2006 ACTUAL \$'000
<b>CURRENT LIABILITIES</b>						
Payables and accruals	10	<b>7,760</b>	11,350	11,456	<b>7,753</b>	11,234
Current portion of borrowings	7	<b>569</b>	569	798	<b>569</b>	629
<b>Total current liabilities</b>		<b>8,329</b>	11,919	12,254	<b>8,322</b>	11,863
<b>Total liabilities</b>		<b>20,818</b>	29,203	25,800	<b>30,020</b>	34,444
<b>Total equity and liabilities</b>		<b>40,075</b>	50,805	50,413	<b>50,527</b>	57,688
<b>ASSETS</b>						
<b>Non-current assets</b>						
Investments in subsidiaries	13	–	–	–	<b>11,310</b>	8,000
Investments in associates	14	<b>812</b>	5,727	628	–	364
Other investments	15	<b>254</b>	–	148	<b>254</b>	148
Accounts receivable	18	<b>350</b>	–	–	<b>350</b>	–
Advances to subsidiaries		–	–	–	–	675
Property, plant and equipment	11	<b>33,532</b>	36,965	33,234	<b>33,532</b>	33,234
Property, plant and equipment held for sale		–	–	3,078	–	3,078
Deferred tax	8	–	2,323	2,700	–	2,700
<b>Total non-current assets</b>		<b>34,948</b>	45,015	39,788	<b>45,446</b>	48,199
<b>Current assets</b>						
Cash and bank balances		<b>738</b>	449	2,300	<b>697</b>	2,148
Accounts receivable	18	<b>3,519</b>	4,530	6,831	<b>3,514</b>	6,202
Inventories	17	<b>870</b>	811	1,088	<b>870</b>	982
Property, plant and equipment held for sale		–	–	406	–	157
<b>Total current assets</b>		<b>5,127</b>	5,790	10,625	<b>5,081</b>	9,489
<b>Total assets</b>		<b>40,075</b>	50,805	50,413	<b>50,527</b>	57,688

The Board of Directors of Industrial Research Limited authorised these financial statements for issue on 14 September 2007.

**Brian Rhoades**  
Chairman

**Craig Stobo**  
Deputy Chairman

## Industrial Research Limited and Subsidiaries

### Statements of cashflows for the year ended 30 June 2007

The statements should be read in conjunction with the accompanying notes.

	GROUP			PARENT	
	2007 ACTUAL \$'000	2007 BUDGET [UNAUDITED] \$'000	2006 ACTUAL \$'000	2007 ACTUAL \$'000	2006 ACTUAL \$'000
<b>OPERATING ACTIVITIES</b>					
<b>Cash was provided from</b>					
Receipts from customers	<b>15,786</b>	22,674	21,784	<b>15,686</b>	20,296
Receipts from the Crown	<b>38,758</b>	38,093	36,676	<b>38,758</b>	36,676
Interest received	<b>47</b>	1,150	106	<b>47</b>	58
Intellectual property	<b>1,495</b>	2,856	6,863	<b>1,490</b>	6,851
	<b>56,086</b>	64,773	65,429	<b>55,981</b>	63,881
<b>Cash was applied to</b>					
Payments to suppliers	<b>(28,042)</b>	(25,780)	(28,108)	<b>(27,874)</b>	(24,746)
Payments to employees	<b>(27,422)</b>	(29,473)	(32,352)	<b>(27,237)</b>	(30,955)
Interest paid	<b>(1,036)</b>	(1,943)	(1,913)	<b>(1,035)</b>	(1,879)
	<b>56,500</b>	(57,196)	(62,373)	<b>(56,146)</b>	(57,580)
<b>Net cash inflows (outflows) from operating activities</b>	<b>(414)</b>	7,577	3,056	<b>(165)</b>	6,301
<b>INVESTMENT ACTIVITIES</b>					
<b>Cash was provided from</b>					
Proceeds from sale of property, plant and equipment	<b>1,118</b>	1,024	11,927	<b>1,114</b>	11,927
Proceeds from sale of subsidiary	<b>1,080</b>	–	–	<b>1,133</b>	–
	<b>2,198</b>	1,024	11,927	<b>2,247</b>	11,927
<b>Cash was applied to</b>					
Purchase of property, plant and equipment	<b>(2,909)</b>	(5,583)	(2,355)	<b>(2,891)</b>	(2,298)
Advances and loans (to)/from subsidiaries	–	–	–	<b>(702)</b>	(2,762)
Purchase of investments	<b>(497)</b>	(5,350)	–	–	–
	<b>(3,406)</b>	(10,933)	(2,355)	<b>(3,593)</b>	(5,060)
<b>Net cash inflows/(outflows) from investment activities</b>	<b>(1,208)</b>	(9,909)	9,572	<b>(1,346)</b>	6,867

## Industrial Research Limited and Subsidiaries

### Statements of cashflows for the year ended 30 June 2007

The statements should be read in conjunction with the accompanying notes.

	GROUP			PARENT	
	2007 ACTUAL \$'000	2007 BUDGET [UNAUDITED] \$'000	2006 ACTUAL \$'000	2007 ACTUAL \$'000	2006 ACTUAL \$'000
<b>FINANCING ACTIVITIES</b>					
<b>Cash was provided from</b>					
Proceeds from borrowings	-	250	-	-	-
Issue of ordinary shares	310	310	-	310	-
	310	560	-	310	-
<b>Cash was applied to</b>					
Term loan repayment	(250)	-	(11,000)	(250)	(11,000)
	(250)	-	(11,000)	(250)	(11,000)
<b>Net cash inflows/(outflows) from financing activities</b>	<b>60</b>	<b>560</b>	<b>(11,000)</b>	<b>60</b>	<b>(11,000)</b>
<b>Net increase/(decrease) in cash held</b>	<b>(1,562)</b>	<b>(1,772)</b>	<b>1,628</b>	<b>(1,451)</b>	<b>2,168</b>
Cash at beginning of year	2,300	2,221	672	2,148	(20)
<b>Cash at end of year</b>	<b>738</b>	<b>449</b>	<b>2,300</b>	<b>697</b>	<b>2,148</b>

**Industrial Research Limited and Subsidiaries**
**Reconciliation of operating cashflows** for the year ended 30 June 2007

The statements should be read in conjunction with the accompanying notes.

	GROUP			PARENT	
	2007 ACTUAL [UNAUDITED] \$'000	2007 BUDGET \$'000	2006 ACTUAL \$'000	2007 ACTUAL \$'000	2006 ACTUAL \$'000
<b>Net surplus/(deficit)</b>	<b>(5,653)</b>	(2,829)	(1,634)	<b>(3,047)</b>	886
	<b>(5,653)</b>	(2,829)	(1,634)	<b>(3,047)</b>	886
<b>Items not involving cashflows</b>					
Depreciation expense	<b>5,440</b>	5,396	6,517	<b>5,433</b>	4,989
Impairment of property, plant and equipment	<b>(409)</b>	–	4,494	<b>(409)</b>	4,494
Revaluation of shares	<b>(106)</b>	–	(18)	<b>(106)</b>	(18)
Movement in tax provision	<b>2,700</b>	–	2,141	<b>2,700</b>	323
Subsidiary/associate company investment write down	–	–	(161)	<b>143</b>	551
Share of earnings retained by associates	<b>313</b>	–	102	–	–
Foreign exchange revaluation on investment in associate	–	–	(28)	–	–
Increase in restructure provision	–	3,746	–	–	–
Gain on disposal of subsidiary	–	–	–	<b>(3,015)</b>	–
Net current assets of business sold	<b>(1,195)</b>	–	–	<b>(604)</b>	–
Non-cash interest	–	–	–	<b>748</b>	(150)
(Surplus)/deficit on sale of plant and equipment	<b>(1,060)</b>	(1,024)	(9,494)	<b>(1,062)</b>	(9,523)
Movement in foreign exchange revaluation reserve	<b>(12)</b>	–	(203)	–	–
	<b>5,671</b>	8,118	3,350	<b>3,828</b>	666
<b>Impact of changes in working capital items</b>					
Accounts receivable	<b>3,312</b>	1,630	1,286	<b>2,688</b>	(560)
Inventory	<b>218</b>	171	(6)	<b>112</b>	(455)
Trade creditors	<b>(3,962)</b>	111	60	<b>(3,746)</b>	1,892
Amalgamation loss	–	–	–	–	3,872
Tax provision	–	376	–	–	–
	<b>(432)</b>	2,288	1,340	<b>(946)</b>	4,749
<b>Net cashflow from operating activities</b>	<b>(414)</b>	7,577	3,056	<b>(165)</b>	6,301

## Industrial Research Limited and Subsidiaries

### Statement of accounting policies for the year ended 30 June 2007

#### Entities reporting

The Parent financial statements are for Industrial Research as a separate legal entity.

The consolidated financial statements for the Group are for the economic entity comprising Industrial Research Limited, its subsidiaries, associates and joint ventures.

#### Statutory base

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993, the Companies Act 1993, the Crown Entities Act 2004 and the Crown Research Institutes Act 1992.

#### Measurement base

The financial statements have been prepared on the historical cost basis or fair value basis.

#### Accounting policies

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

#### Group financial statements

The group financial statements consolidate the financial statements of subsidiaries, using the purchase method, and include the results of associates using the equity method.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent.

Associates are entities in which the Parent, either directly or indirectly, has a significant but not controlling interest.

All material transactions between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation.

The results of subsidiaries or associates acquired or disposed of during the year are included in the consolidated statement of financial performance from the date of acquisition or up to the date of disposal.

#### Revenue

##### Goods and services

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

##### Research contracts

The surplus on a research contract is recognised on the completion of identifiable milestones, the sum of which comprise the contract. The percentage of completion method is used to determine the appropriate amount to recognise in a given period. The full amount of an anticipated loss, including that relating to future work on the contract, is recognised as soon as it is foreseen.

##### Grants

Grants received are recognised in the statement of financial performance when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

##### Investment income

Dividend income is recognised in the period the dividend is declared.

Interest and rental income are accounted for as earned.

### **Income tax**

The income tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

A deferred tax asset, or the effect losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

### **Goods and Services Tax (GST)**

The statement of financial performance and statement of cashflows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

### **Foreign currencies**

#### **Transactions**

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction, except when forward currency contracts have been taken out to cover short term forward currency commitments. Where short term forward currency contracts have been taken out, the transaction is translated at the rate contained in the contract.

Monetary assets and liabilities arising from trading transactions or overseas borrowings are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the statement of financial performance, except where monetary liabilities are identified as a hedge against an independent foreign operation.

#### **Foreign operations**

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the date of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rate of exchange ruling at balance date.

Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations.

### **Property, plant and equipment**

#### **Initial recording**

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets, and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, costs of obtaining Resource Management Act consents, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

## Industrial Research Limited and Subsidiaries

### Statement of accounting policies for the year ended 30 June 2007

#### Depreciation

Depreciation of property, plant and equipment, other than freehold land, is calculated on a straight line basis so as to expense the cost of the assets, or the revalued amounts, to their residual values over their useful lives as follows.

Category	Estimated useful life	Depreciation basis
Freehold buildings	10–40 years	straight line
Building auxiliary services	10–20 years	straight line
Computer equipment	4 years	straight line
Plant and scientific equipment	5–12 years	straight line
Motor vehicles	4 years	straight line
Computer software	3 years	straight line
Office furniture, fittings and equipment	5 years	straight line

#### Leased assets

##### As lessee

###### Finance leases

Assets under finance leases are recognised as non-current assets in the statement of financial position. Leased assets are recognised initially at the lower of the present value of the minimum lease payments or their fair value. A corresponding liability is established and each lease payment allocated between the liability and interest expense. Leased assets are depreciated on the same basis as equivalent property, plant and equipment.

###### Operating leases

Leases that are not finance leases are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

##### As lessor

###### Finance leases

When assets are sold under a finance lease the gross amount of the lease payments is recognised as a receivable. The difference between the gross receivable and the cost of the asset is recognised as unearned finance income. Lease income is recognised over the term of the lease using the actuarial method, which reflects a constant periodic rate of return. Where the normal selling price of an asset exceeds its carrying amount at the inception of the lease, this difference is recognised as a margin in the period the lease is established.

#### Investments

Investments in subsidiaries and associates are stated at cost in the statement of financial position of the parent.

Investments in listed shares are stated at quoted market prices.

Other investments are stated at the lower of cost or net realisable value.

#### Joint ventures

When a member of the Group participates in a joint venture arrangement, that member recognises its proportionate interest in the individual assets, liabilities and expenses of the joint venture. The liabilities recognised include its share of those for which it is jointly liable.

## Intangible assets

### Research and development

All research costs are recognised as an expense when incurred.

When a project reaches the stage where it is reasonably certain that further expenditure can be recovered through the processes or products produced, development expenditure is recognised as a development asset. The asset is amortised from the commencement of commercial production of the product to which it relates, on a straight line basis, over the period of expected benefit, which ranges from two to ten years.

### Inventories

Raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and, in the case of manufactured goods, includes direct materials, labour and production overheads.

### Contract work in progress

Contract work in progress includes the cost of direct materials and direct labour. Cost also includes all expenses directly related to specific contracts and an allocation of general overhead expenses incurred by the Group's contract operations.

### Accounts receivable

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful.

### Impairment

Annually, the directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the statement of financial performance.

### Budget figures

The budget figures are those approved by the Board of Directors at the beginning of the financial year. The budget figures have been prepared in accordance with generally accepted accounting practice and consistent with accounting policies adopted by the Board for preparation of the financial statements.

### Employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees.

On 1 July 1992 the long service leave and retirement leave days accrued by former DSIR employees were frozen on their transfer to Industrial Research Limited. The liability for employee entitlements is carried at the present value of the estimated future cash outflows determined on an actuarial basis.

### Financial instruments

#### Recognised

Financial instruments carried on the statement of financial position include cash and bank balances, investments, receivables, trade creditors and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged items.

## Industrial Research Limited and Subsidiaries

# Statement of accounting policies for the year ended 30 June 2007

Financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the statement of financial performance.

### Unrecognised

The net differential paid or received on interest swaps is recognised as a component of interest expense or revenue over the period of the agreement.

Premiums paid on interest rate options, and net settlements on maturity of forward rate agreements are amortised to the statement of financial performance over the period of the underlying asset or liability.

Forward exchange contracts entered into as hedges of foreign exchange assets and liabilities are valued at exchange rates prevailing at year end. Any unrealised gains or losses are offset against foreign exchange gains and losses on the related asset or liability. Premiums paid on currency options are expensed as incurred.

## Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

- a) Operating activities include all transactions and other events that are not investing or financing activities.
- b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- c) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- d) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

## Comparatives

Certain comparatives have been reclassified in order to conform with the presentation of the current period.

## Changes in accounting policies

There have been no changes in accounting policies during the current year. Accounting policies have been applied on a basis consistent with prior year.

## 1. Segment information

The entity operates in New Zealand, Australia and Singapore and is an innovation company with science as its core strength. More than 90% of the Group's total operating revenues, operating earnings and identifiable assets were generated by operations in New Zealand. Therefore there is no requirement for segment reporting.

## 2. Operating revenue

	GROUP		PARENT	
	2007 ACTUAL S'000	2006 ACTUAL S'000	2007 ACTUAL S'000	2006 ACTUAL S'000
<b>CONTINUING ACTIVITIES</b>				
<b>Crown revenue</b>				
Foundation for Research, Science and Technology	<b>33,120</b>	31,029	<b>33,120</b>	31,074
Ministry of Research, Science and Technology	<b>5,512</b>	5,055	<b>5,512</b>	5,055
	<b>38,632</b>	36,084	<b>38,632</b>	36,129
<b>Commercial revenue</b>				
Commercial – domestic	<b>8,154</b>	10,270	<b>8,101</b>	10,578
Commercial – overseas	<b>4,688</b>	3,248	<b>4,688</b>	3,475
Intellectual property	<b>1,495</b>	6,863	<b>1,490</b>	6,851
	<b>14,337</b>	20,381	<b>14,279</b>	20,904
<b>Investment revenue</b>				
Interest	<b>48</b>	88	<b>47</b>	58
<b>Other revenue</b>				
Gain on disposal of property, plant and equipment	<b>1,060</b>	9,494	<b>1,062</b>	9,523
Intercompany	–	–	–	2,850
<b>Total revenue from continuing activities</b>	<b>54,077</b>	66,047	<b>54,020</b>	69,464
<b>DISCONTINUED ACTIVITIES</b>				

On 31 May 2006 BioPharm Limited was amalgamated into Industrial Research Limited. Management successfully committed to a plan to cease the operations of BioPharm in the first half of the current financial year. The assets of the businesses were classified as held for sale as at 30 June 2006 and the comparative revenue below and expenditure (Note 3) have been re-presented to show the discontinued operations separately from continuing operations.

On 31 July 2006 the Group sold the business of MPT Solutions, a division of Industrial Research Limited and Materials Performance Technologies Limited. The businesses were not discontinued operations or classified as held for sale as at 30 June 2006 and the comparative revenue below and expenditure (Note 3) have been re-presented to show the discontinued operations separately from continuing operations.

Included in the surplus/(deficit) is the revenue described below and the expenses disclosed in note 3.

Continued over page >>

**Industrial Research Limited and Subsidiaries**
**Notes to the financial statements** for the year ended 30 June 2007

**2. Operating revenue (Continued)**

	GROUP		PARENT	
	2007 ACTUAL \$'000	2006 ACTUAL \$'000	2007 ACTUAL \$'000	2006 ACTUAL \$'000
<b>Trading revenue</b>	<b>941</b>	7,765	<b>756</b>	3,900
<b>Total revenue from discontinued activities</b>	<b>941</b>	7,765	<b>756</b>	3,900
<b>Total operating revenue</b>	<b>55,018</b>	73,812	<b>54,776</b>	73,364

### 3. Operating expenses

OPERATING EXPENSES INCLUDE:	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

**CONTINUING ACTIVITIES**
**Depreciation of property, plant and equipment**

Buildings	<b>657</b>	484	<b>657</b>	484
Building auxiliary services	<b>2,175</b>	1,760	<b>2,175</b>	1,760
Plant and science equipment	<b>1,779</b>	1,637	<b>1,779</b>	1,637
Motor vehicles	<b>2</b>	7	<b>2</b>	7
Office furniture and equipment	<b>103</b>	120	<b>103</b>	120
Software	<b>544</b>	413	<b>544</b>	413
Computer equipment	<b>127</b>	367	<b>127</b>	367
Total Depreciation	<b>5,387</b>	4,788	<b>5,387</b>	4,788
Write-off of deferred tax asset	<b>2,700</b>	3,787	<b>2,700</b>	3,787

**Associates**

Amortisation of subsidiary/associate company investment	-	-	<b>69</b>	551
Reversal of prior year write down	-	(161)	-	-
Share of associates (profit)/loss	<b>313</b>	102	-	-

**Costs of offering credit**

Bad debts	-	128	-	128
Doubtful debts	<b>(211)</b>	91	<b>(211)</b>	88

**Costs of borrowings**

Interest on borrowings	<b>1,035</b>	1,902	<b>1,035</b>	2,438
------------------------	--------------	-------	--------------	-------

**Auditors Fees**

Audit fees paid to principal auditors	<b>92</b>	84	<b>87</b>	84
Fees paid for other services provided by principal auditors				
Other assurance services	<b>48</b>	16	<b>48</b>	16
Other services	<b>11</b>	13	<b>11</b>	13

Contined over page &gt;&gt;

**Industrial Research Limited and Subsidiaries**  
**Notes to the financial statements** for the year ended 30 June 2007

**3. Operating expenses (Continued)**

<b>Reorganisation expenses</b>				
Employee termination costs	<b>583</b>	3,164	<b>583</b>	3,147
<b>Sundry expenses</b>				
Donations	<b>1</b>	3	<b>1</b>	3
Foreign exchange (gains)/losses	<b>80</b>	(495)	<b>79</b>	(392)
Rental and operating leases	<b>985</b>	669	<b>990</b>	689
Directors' fees	<b>281</b>	336	<b>221</b>	175

	<b>GROUP</b>		<b>PARENT</b>	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>OPERATING EXPENSES INCLUDE:</b>				

**DISCONTINUING ACTIVITIES**

<b>Depreciation of property, plant and equipment</b>				
Building auxiliary services	–	732	–	61
Plant and science equipment	<b>9</b>	788	<b>3</b>	101
Office furniture and equipment	–	8	–	1
Software	–	110	<b>1</b>	15
Computer equipment	<b>3</b>	91	<b>1</b>	23
Total Depreciation	<b>12</b>	1,729	<b>5</b>	201
Impairment of assets held for sale	<b>(409)</b>	4,494	<b>(409)</b>	4,494
<b>Costs of offering credit</b>				
Doubtful debts	–	129	–	81
<b>Costs of borrowings</b>				
Interest on borrowings	<b>1</b>	11	–	5
<b>Auditors Fees</b>				
Audit fees paid to principal auditors	–	12	–	–
Audit fees paid to other auditors	–	12	–	–
<b>Reorganisation expenses</b>				
Employee termination costs	<b>836</b>	37	<b>836</b>	–
<b>Sundry expenses</b>				
Foreign exchange (gains)/losses	–	(5)	<b>(2)</b>	19
Rental and operating leases	<b>7</b>	73	–	–
Directors' fees	–	71	–	2

**Industrial Research Limited and Subsidiaries**
**Notes to the financial statements** for the year ended 30 June 2007

## 4. Share capital

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ISSUED AND PAID UP CAPITAL</b>				
<b>Ordinary shares</b>				
Balance at beginning of the year	<b>24,250</b>	24,250	<b>24,250</b>	24,250
Share issue made during year	<b>310</b>	–	<b>310</b>	–
<b>Closing share capital</b>	<b>24,560</b>	24,250	<b>24,560</b>	24,250

**Ordinary shares**

As at 30 June 2007 there were 21,763,454 shares issued and fully paid (2006: 21,549,660).

**Share issue**

On 29 August 2006, 213,794 ordinary shares were issued for cost at \$1.45 per share

## 5. Reserves

	GROUP	
	2007 \$'000	2006 \$'000
<b>BALANCES</b>		
Foreign currency translation reserve	–	(24)
<b>ANALYSIS</b>		
<b>Foreign currency translation reserve</b>		
Balance at beginning of year	<b>(24)</b>	179
Current year adjustment	<b>(13)</b>	–
Transfer on sale of subsidiary	<b>37</b>	(203)
<b>Balance at end of year</b>	<b>–</b>	(24)

## 6. Retained earnings

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ANALYSIS</b>				
Balance at beginning of the year	<b>387</b>	2,021	<b>(1,006)</b>	6,708
Net surplus/(deficit) for the year	<b>(5,653)</b>	(1,634)	<b>(3,047)</b>	886
Amalgamation adjustment	–	–	–	(8,600)
Transfer from foreign currency translation reserve	<b>(37)</b>	–	–	–
<b>Balance at end of year</b>	<b>(5,303)</b>	387	<b>(4,053)</b>	(1,006)

## 7. Borrowings

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>CURRENT BORROWINGS</b>				
Current portion of capitalised lease obligations	<b>569</b>	798	<b>569</b>	629
<b>NON-CURRENT BORROWINGS</b>				
<b>Unsecured</b>				
Capitalised lease obligations	<b>223</b>	765	<b>223</b>	765
National Bank term advances facility	<b>11,650</b>	11,900	<b>11,650</b>	11,900
<b>Total non-current borrowings</b>	<b>11,873</b>	12,665	<b>11,873</b>	12,665

Management actively manage the cash resources of the company to ensure the term debt facility is kept to a minimum.

<b>INTEREST RATES</b>				
	GROUP		PARENT	
	2007	2006	2007	2006
<b>WEIGHTED AVERAGE EFFECTIVE INTEREST RATES ON BORROWINGS (%)</b>				
Term advances facility	<b>8.61</b>	7.66	<b>8.61</b>	7.66
Capitalised lease obligations	<b>9.28</b>	9.28	<b>9.28</b>	9.28

**Industrial Research Limited and Subsidiaries**

Notes to the financial statements for the year ended 30 June 2007

## 8. Deferred tax asset

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance at beginning of year	<b>2,700</b>	4,841	<b>2,700</b>	3,023
Deferred portion of current period tax expense	<b>(2,597)</b>	(1,947)	<b>(2,597)</b>	(3,976)
Balance transferred on amalgamation of subsidiary	-	-	-	3,988
Prior period adjustment	<b>(103)</b>	(194)	<b>(103)</b>	(335)
<b>Balance at end of year</b>	-	2,700	-	2,700

**AMOUNTS NOT RECOGNISED IN DEFERRED TAX**

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

**Unrecognised tax losses**

New Zealand	<b>14,779</b>	11,476	<b>14,779</b>	11,476
Australia	-	738	-	-
<b>Total</b>	<b>14,779</b>	12,214	<b>14,779</b>	11,476

**Tax effect of unrecognised tax losses**

New Zealand 30% 2007 (33% 2006)	<b>4,434</b>	3,787	<b>4,434</b>	3,787
Effect of change in corporate tax rate from 33% to 30%	<b>443</b>	-	<b>443</b>	-
Australia 30%	-	221	-	-
<b>Total</b>	<b>4,877</b>	4,008	<b>4,877</b>	3,787

**Tax effect of unrecognised timing differences**

	<b>2,646</b>	33	<b>2,646</b>	33
--	--------------	----	--------------	----

Unrecognised income tax losses are available subject to the requirements of applicable income tax legislation being met.

On 21 May 2007, income tax legislation was amended to change the corporate tax rate from 33% to 30% with effect from 1 April 2008. The tax effect of unrecognised losses and timing differences have been adjusted to reflect this change.

## 9. Income tax

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Operating surplus before tax</b>	<b>(2,953)</b>	507	<b>(347)</b>	5,197
Capital gains	<b>(1,206)</b>	(8,630)	<b>(4,221)</b>	(8,630)
Share of associate/joint venture/subsidiary tax paid earnings	<b>380</b>	(212)	–	–
Investment writedown	–	(122)	<b>143</b>	533
Expenditure not deductible for tax	<b>428</b>	223	<b>393</b>	223
Losses forfeited on amalgamation	–	2,558	–	2,558
Loss utilisation by subsidiary	–	–	<b>681</b>	590
Prior period adjustment	<b>312</b>	588	<b>312</b>	1,014
	<b>(3,039)</b>	(5,088)	<b>(3,039)</b>	1,485
Tax at 33%	<b>(1,003)</b>	(1,679)	<b>(1,003)</b>	491
Derecognition of losses	<b>1,090</b>	3,787	<b>1,090</b>	3,787
Derecognition of timing differences	<b>2,613</b>	33	<b>2,613</b>	33
<b>Income tax recognised in the statement of financial performance</b>	<b>2,700</b>	2,141	<b>2,700</b>	4,311
<b>Comprising</b>				
Estimated current period tax assessment	–	–	–	–
(Under)/over estimation in prior year	<b>103</b>	194	<b>103</b>	335
Deferred income tax liability	<b>2,597</b>	1,947	<b>2,597</b>	3,976
	<b>2,700</b>	2,141	<b>2,700</b>	4,311

**Industrial Research Limited and Subsidiaries**

Notes to the financial statements for the year ended 30 June 2007

## 10. Payables and accruals

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>CURRENT</b>				
<b>Unsecured</b>				
Trade creditors	<b>1,279</b>	3,040	<b>1,279</b>	3,037
Revenue in advance	<b>1,311</b>	1,452	<b>1,311</b>	1,452
Employee entitlements	<b>1,123</b>	1,206	<b>1,121</b>	1,160
Sundry creditors	<b>448</b>	361	<b>446</b>	361
Annual leave	<b>1,552</b>	2,107	<b>1,552</b>	2,052
Goods and services tax (GST) payable	<b>249</b>	1,514	<b>249</b>	1,468
Other payables and accruals	<b>1,798</b>	1,776	<b>1,795</b>	1,704
	<b>7,760</b>	11,456	<b>7,753</b>	11,234
<b>NON-CURRENT</b>				
<b>Unsecured</b>				
Long service leave	<b>616</b>	881	<b>616</b>	881
	<b>616</b>	881	<b>616</b>	881

## 11. Property, plant and equipment

	2007			2006		
	COST \$'000	ACC DEPN \$'000	BOOK VALUE \$'000	COST \$'000	ACC DEPN \$'000	BOOK VALUE \$'000
<b>PARENT and GROUP</b>						
<b>Land – freehold</b>	<b>3,001</b>	<b>–</b>	<b>3,001</b>	3,001	–	3,001
<b>Buildings – freehold</b>	<b>40,220</b>	<b>(19,007)</b>	<b>21,213</b>	33,286	(13,120)	20,166
<b>Leasehold Improvements</b>	<b>1,001</b>	<b>(1,001)</b>	<b>–</b>	1,001	(613)	388
<b>Plant and equipment</b>						
At cost	<b>33,320</b>	<b>(25,980)</b>	<b>7,340</b>	24,411	(17,483)	6,928
Capitalised finance lease assets	<b>1,046</b>	<b>(283)</b>	<b>763</b>	980	(157)	823
<b>Total plant and equipment</b>	<b>34,366</b>	<b>(26,263)</b>	<b>8,103</b>	25,391	(17,640)	7,751
<b>Motor vehicles</b>	<b>56</b>	<b>(55)</b>	<b>1</b>	56	(54)	2
<b>Office equipment</b>						
At cost	<b>1,077</b>	<b>(969)</b>	<b>108</b>	1,009	(848)	161
Capitalised finance lease assets	<b>87</b>	<b>(83)</b>	<b>4</b>	87	(65)	22
<b>Total office equipment</b>	<b>1,164</b>	<b>(1,052)</b>	<b>112</b>	1,096	(913)	183
<b>Computer equipment</b>						
At cost	<b>5,169</b>	<b>(5,035)</b>	<b>134</b>	4,528	(4,431)	97
Capitalised finance lease assets	<b>119</b>	<b>(119)</b>	<b>–</b>	119	(119)	–
<b>Total computer equipment</b>	<b>5,288</b>	<b>(5,154)</b>	<b>134</b>	4,647	(4,550)	97
<b>Software</b>						
At cost	<b>2,970</b>	<b>(2,547)</b>	<b>423</b>	2,287	(1,946)	341
Capitalised finance lease assets	<b>965</b>	<b>(579)</b>	<b>386</b>	965	(306)	659
<b>Total software</b>	<b>3,935</b>	<b>(3,126)</b>	<b>809</b>	3,252	(2,252)	1,000
<b>Capital work in progress</b>	<b>159</b>	<b>–</b>	<b>159</b>	646	–	646
	<b>89,190</b>	<b>(55,658)</b>	<b>33,532</b>	72,376	(39,142)	33,234

### BioPharm assets

As at 30 June 2006 the Group classified the property, plant and equipment of BioPharm, a division of Industrial Research Limited, as held for sale. Management successfully committed to a plan to cease the operations of BioPharm in the first half of the current financial year. All property, plant and equipment previously used in the now discontinued operations have been transferred to the Group's other operations:

	2006		
	COST \$'000	ACC DEPN \$'000	BOOK VALUE \$'000
<b>PARENT and GROUP</b>			
BioPharm assets held for sale	14,754	(11,676)	3,078

Continued over page >>

**Industrial Research Limited and Subsidiaries**
**Notes to the financial statements** for the year ended 30 June 2007

**11. Property, plant and equipment (Continued)**
**Restriction on title**

In relation to the transfer of land, shareholding Ministers shall have regard to the principles of the Treaty of Waitangi in accordance with section 10 of the Crown Research Institutes Act 1992. The Lower Hutt properties have Treaty of Waitangi caveats registered against their respective titles.

**Insurable values of fixed assets**

The Group has established, maintains and regularly reviews comprehensive cover for business insurance. As part of this cover, it insures its fixed assets at their restatement values. In line with other businesses in the Wellington region, the Group faces higher rates of exclusions on the fixed asset replacement policies. These can be 5% of the insured value for Material Damage and Business Interruption cover compared to 1% for Auckland and 2.5% for Christchurch. On current insured values this would equate to an amount of approximately \$14million of the restatement value of \$280million for buildings, plant and equipment for the Gracefield site.

## 12. Commitments

The following amounts have been committed to by the Group or Parent, but not recognised in the financial statements.

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

**Operating leases**

Non-cancellable operating lease commitments:

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within one year	<b>2,441</b>	812	<b>2,441</b>	812
One to two years	<b>1,777</b>	735	<b>1,777</b>	735
Two to five years	<b>3,044</b>	52	<b>3,044</b>	52
	<b>7,262</b>	1,599	<b>7,262</b>	1,599

The Group leases premises, plant and equipment and EDP equipment. Operating leases held over properties give the Group the right to renew the lease subject to a re-determination of the lease rental by the lessor. There are no renewal options or options to purchase in respect of plant and equipment or computer equipment held under operating leases.

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

**Capital expenditure**

Amounts committed to capital expenditure:	<b>584</b>	–	<b>584</b>	–
	<b>584</b>	–	<b>584</b>	–

## 13. Investments in subsidiaries

The Parent's investment in subsidiaries comprises shares at cost. Subsidiaries comprise:

NAME OF ENTITY	PRINCIPAL ACTIVITIES	INTEREST HELD BY THE GROUP	
		2007	2006
Measurement Standards Laboratory of New Zealand Limited	Non-operating – name protection	<b>100%</b>	100%
Industrial Research Pty Limited	Non-operating – name protection in Australia	<b>100%</b>	100%
Glycosyn Technologies Limited	Non-operating – name protection	<b>100%</b>	100%
Superlink Developments Limited	Bare trustee of certain intellectual property	<b>67%</b>	67%
Bio-Sol Limited	Non-operating – for involvement in consortium	<b>100%</b>	100%
Innovation Finance Limited	Equity investment in start-up companies	<b>100%</b>	100%
Damping Systems Limited	Earthquake damping technology	<b>100%</b>	33%
Material Performance Technologies Pty Limited	Specialised consultancy services	<b>Nil</b>	100%

All subsidiary entities have balance dates of 30 June.

Industrial Research Pty Limited is incorporated in Australia. All other subsidiary entities are incorporated in New Zealand.

### Acquisition of subsidiary

On 1 February 2007, the Group acquired for \$1, the shares it did not hold in Damping Systems Limited. Damping Systems Limited has no assets and no liabilities and does not operate. The board of directors has resolved to close the company. An application has been made for Damping Systems Limited to be removed from the New Zealand register of companies.

### Amalgamation

On 31 May 2006 IRL-BioPharm Limited was amalgamated into the Parent. Until the date of amalgamation, IRL-BioPharm Limited had been a wholly owned subsidiary of the Parent. Under the amalgamation the Parent took control of all of the assets of IRL-BioPharm Limited and assumed responsibility for its liabilities. IRL BioPharm Limited has been removed from the New Zealand register of companies.

Continued over page >>

**Industrial Research Limited and Subsidiaries**
**Notes to the financial statements** for the year ended 30 June 2007

**13. Investments in subsidiaries (Continued)**
**Summary of the effect of the amalgamation of IRL-BioPharm Limited**

	PARENT
	2006 \$'000
<b>Assets and liabilities amalgamated:</b>	
Bank balances	60
Net current assets	3,872
Property, plant and equipment	7,700
Borrowings	(5,232)
	6,400
Carrying amount of shares in amalgamated subsidiary	(15,000)
<b>Balance recognised in the statement of movements in equity</b>	<b>(8,600)</b>

**Disposal of subsidiary**

The business of MPT Solutions, a division of Industrial Research Limited, and Material Performance Technologies Pty Limited were sold on 31 July 2006. There was no gain on disposal to the Group.

**Summary of the effect of the sale of Materials Performance Technologies Pty Limited**

	GROUP
	2007 \$'000
<b>Assets and liabilities disposed of:</b>	
Bank balances	52
Net current assets	1,195
Property, plant and equipment	402
Borrowings	(167)
Total net assets disposed	1,482
Loss on disposal	-
Disposal proceeds	1,482
Deferred settlement	(350)
Cash received	1,132
Bank balances disposed with subsidiary	(52)
<b>Net cash impact</b>	<b>1,080</b>

## 14. Investments in associates

### Details of associates

Significant associates comprise:

NAME OF ENTITY	PRINCIPAL ACTIVITIES	INTEREST HELD BY THE GROUP		GROUP CARRYING VALUE	
		2007	2006	2007 \$'000	2006 \$'000
HTS-110 Limited	Commercialisation of superconductor technology	49.72%	50.00%	812	628
MPT-Matcor Pte Limited	Plant life cycle services in ASEAN region	50.00%	50.00%	-	-

All entities are incorporated in New Zealand with the exception of MPT-Matcor Pte Limited, which is incorporated in Singapore.

All entities have balance dates of 30 June. The directors are not aware of any significant events or transactions since balance date.

RESULTS OF ASSOCIATES	GROUP CARRYING VALUE	
	2007 \$'000	2006 \$'000
Share of loss before income tax	(313)	(102)
Total recognised revenues and expenses	(313)	(102)

INTERESTS IN ASSOCIATES	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Carrying amount at beginning of year	628	541	364	573
Movement in foreign exchange revaluation		28	-	-
Reversal of prior year write off		161	-	-
Amortisation	-	-	(69)	(209)
Share of total recognised revenues and expenses	(313)	(102)		-
Purchase of additional shares	497			
Ownership of associate sold to subsidiary			(295)	
<b>Carrying amount at end of year</b>	<b>812</b>	<b>628</b>	<b>-</b>	<b>364</b>

On 29 September 2006, the Parent's investment in HTS-110 Limited was transferred to Innovation Finance Limited, a 100% Group subsidiary.

**Industrial Research Limited and Subsidiaries**

Notes to the financial statements for the year ended 30 June 2007

## 15. Other investments

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Non-current</b>				
Shares in other corporations at market value	254	148	254	148
<b>Total non-current other investments</b>	<b>254</b>	<b>148</b>	<b>254</b>	<b>148</b>

## 16. Joint venture

The Group has a 50% participating interest in Superlink joint venture. The principal activity is high temperature superconducting intellectual property management. The joint venture partner is Meridian Energy Limited.

	GROUP	
	2007 \$'000	2006 \$'000

**Financial performance**

Revenue	23	19
Expenses	(37)	(12)
<b>Net contribution to Group operating surplus/(deficit)</b>	<b>(14)</b>	<b>7</b>

**Financial position**

The Group's share of assets and liabilities, proportionately consolidated, was:

**Current assets**

Cash at bank	27	36
Trade receivables	4	9
Share of total assets included in Group	31	45

**Current liabilities**

Trade creditors	3	3
<b>Net assets employed in the joint venture</b>	<b>28</b>	<b>42</b>

Superlink joint venture has the same balance date as the parent company.

## 17. Inventories

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Raw materials and consumables	359	632	359	632
Work in Progress	511	456	511	350
	<b>870</b>	<b>1,088</b>	<b>870</b>	<b>982</b>

## 18. Accounts receivable

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current</b>				
Trade receivable	<b>2,884</b>	5,716	<b>2,884</b>	5,032
Less: Provision for doubtful debts	<b>(62)</b>	(737)	<b>(62)</b>	(670)
	<b>2,822</b>	4,979	<b>2,822</b>	4,362
Accrued income	<b>65</b>	629	<b>65</b>	629
Other receivables	<b>27</b>	37	<b>22</b>	25
Prepayments	<b>605</b>	1,186	<b>605</b>	1,186
	<b>3,519</b>	6,831	<b>3,514</b>	6,202
<b>Non-current</b>				
Settlement due from disposal of subsidiary	<b>350</b>	–	<b>350</b>	–
	<b>350</b>	–	<b>350</b>	–

## 19. Financial instruments

The Group is subject to a number of financial risks which arise as a result of its debt portfolio and investment activities.

To manage and limit the effects of those financial risks, the Board of Directors has approved policy guidelines and authorised the use of various financial instruments. The policies approved, and financial instruments being utilised at balance date, are outlined below.

### Currency risk

#### Policies

For confirmed off-shore contracts undertaken in foreign currency, it is the Group's policy to enter into foreign exchange forward contracts to manage the exposure to fluctuations in currency rates. The policy suggests that the level of cover for confirmed contracts should be between 75%–100%. At 30 June 2007 there were no options held by the company (2006: US\$525,000).

#### Unrecognised balances

There were no notional or principle contract amounts of foreign exchange instruments outstanding at balance date (2006: Nil).

### Interest rate risk

#### Policies

The Group uses interest rate swaps and forward rate agreements to manage its interest rate risk. The policy states that the level of fixed rate cover on forecasted core debt should be in the range of 30% to 100% for 0–2 years.

#### Unrecognised balances

There were no notional or principle contract amounts of interest instruments outstanding at balance date are (2006: Nil).

### Credit risk

The Group incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business.

The Group has a credit policy which restricts the exposure to individual trade receivables and the Board of Directors reviews exposure to trade receivables on a regular basis. The group had two

Continued over page >>

**Industrial Research Limited and Subsidiaries**
**Notes to the financial statements** for the year ended 30 June 2007

customers above the 5% threshold representing 36% of trade receivables (2006: four customers 32%). Amounts owed by trade receivables are unsecured.

**Fair values**
**Methods and assumptions**

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

**Cash at bank, bank overdraft, term deposits, loans issued, receivables and trade creditors**

The carrying value of these items are equivalent to their fair value.

**Investments**

Listed investments are based on quoted market prices at balance date. Unlisted shares are valued by the directors based on the net asset backing of the company.

**Interest rates swaps and options and foreign currency forward exchange contracts**

The above derivatives are based on valuations provided by the Group's bankers.

## 20. Related party information

**General**

The Government of New Zealand is a 100% shareholder in Industrial Research Limited. All transactions with other state owned enterprises and government departments and agencies are at arm's length, and are not considered to fall within the intended scope of disclosure of related party transactions.

There were no significant related party transactions during the year other than those disclosed in these financial statements. No related party debts have been written off or forgiven during the year.

All members of the group are considered to be related parties of Industrial Research Limited. This includes the subsidiaries identified in note 13, the associated entities in note 14 and the joint venture identified in note 16.

**Related party transactions and balances**
**Parent**

Industrial Research Limited is the parent company of a number of subsidiary companies.

Transactions during the year were:

	PARENT	
	2007 \$'000	2006 \$'000
Sale of services and general recoveries	78	2,136
Purchase of services	–	605
Interest received	–	714
Interest paid	748	564

**Other related parties:**

During the year the Parent modified various loans advanced to subsidiaries and related entities.

	PARENT	
	2007 \$'000	2006 \$'000

**Details on the loans to subsidiaries at balance date were:**

Materials Performance Technologies Pty Limited	–	675
--	---	-----

**Details on the loans from subsidiaries at balance date were:**

Innovation Finance Limited	9,209	9,035
----------------------------	-------	-------

## 21. Contingent liabilities

The shareholder invested \$5,000,000 in Industrial Research Limited during the year ended 30 June 2005. To date, \$2,997,265 has been invested with a further \$1,002,735 to be invested prior to November 2007 otherwise repayment to the shareholder of the balance of uncommitted funds would be required.

There are no other contingent liabilities. (2006: Nil)

## 22. Events occurring after balance date

There have been no events subsequent to balance date which require disclosure in or adjustment to the financial statements.

## 23. Adoption of New Zealand equivalents to International Financial Reporting Standards

In December 2002 the New Zealand Accounting Standards Review Board (ASRB) announced that all New Zealand reporting entities will be required to comply with International Financial Reporting Standards (IFRS) for periods commencing on or after 1 January 2007, with the option to comply early for periods beginning on or after 1 January 2005.

The Group will adopt New Zealand Equivalents to IFRS (NZ IFRS) for the year ending 30 June 2008. In adopting NZ IFRS the Group will also be in compliance with IFRS.

Upon first time adoption of NZ IFRS, comparative information will be restated in the NZ IFRS compliant financial statements. Details of the impact of the adoption to comparative information will be set out in those financial statements.

Management established a conversion project, monitored by a steering committee, to achieve transition to NZ IFRS reporting. The project involved assessing the impacts of NZ IFRS to the Group, then designing and implementing changes required to accounting policies and procedures, as well as systems and processes, in order to successfully transition to NZ IFRS.

Key differences occur in the following areas:

- Classification of software assets.

Under NZ IAS 38: *Intangible Assets* computer software that is not an intrinsic part of another asset should be classified as an intangible asset and should be amortised over the expected useful life of the software. The Group has separately identified all software and the value will be transferred from fixed assets to intangibles and amortised accordingly.

- Recognition of sick leave provision.

NZ IAS 19: *Employee Benefits* requires that provision be made for sick leave already accrued by employees that is expected to be used in future period. A provision for sick leave has been established in order to comply with this requirement.

- Derivatives:

Given the small scope of the Groups derivative activity and immaterial impact on Group financial performance, it has been recommended that the Group fair values the derivatives through the Income Statement.

Continued over page >>

**Industrial Research Limited and Subsidiaries**

**Notes to the financial statements** for the year ended 30 June 2007

**23. Adoption of New Zealand equivalents to International Financial Reporting Standards (Continued)**

All the financial information in these financial statements has been prepared in accordance with current New Zealand generally accepted accounting practice (NZ GAAP). The accounting policy differences between current NZ GAAP and NZ IFRS identified above may have an effect on the Group's financial position and performance.

**SUMMARY OF KEY IMPACTS**

The impact of the NZ IFRS adjustments on the reported net assets as at 30 June 2006 are:

	\$'000
Reported net assets (equity) – NZ FRS	24,613
Adjustment for sick leave provision	(26)
Deferred tax on sick leave provision	9
<b>Expected impact on net assets (equity) resulting from transition to NZ IFRS</b>	<b>(17)</b>
Reported net assets (equity) restated for NZ IFRS	24,596

None of the potential impacts of the adoption of NZ IFRS on the 2007 Financial Statements, other than the impact on opening net assets noted above, have been quantified. The actual impact of adopting NZ IFRS may vary from the information presented, and the variation may be material.

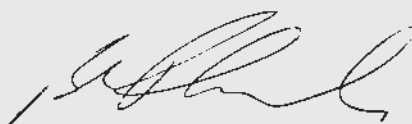
# Management responsibility statement

The management of Industrial Research Limited has the responsibility for:

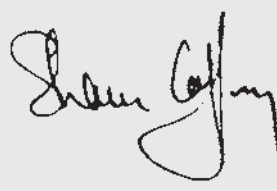
- (a) The preparation of the annual financial statements and the judgments used therein.
- (b) Establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the management the annual financial statements for the financial year ended 30 June 2007 fairly reflect the financial position and operations of Industrial Research Limited. This statement is issued in accordance with section 42 of the Public Finance Act 1989.

The annual report and the financial statements presented on pages 41 to 69 are signed for and on behalf of the Board and were authorised for issue on the date set out below.



**B Rhoades**  
Chairman



**S G Coffey**  
Chief Executive Officer



**G McIrvine**  
General Manager Corporate Services

Date: 14 September 2007

# Directory

## Directors

### Chairman

Brian Rhoades, Nelson

### Deputy Chairman

Craig Stobo, Auckland

Anita Mazzoleni, Auckland

Richard Nottage, Wellington (up to 30/06/07)

Ian Parton, Auckland

David Henry, Auckland (from 01/07/07)

Michael Ahie, Wellington (from 01/07/07)

Maxime Simmons, Auckland (from 01/10/07)

### Secretary

Jonas Holland

Jeff Lycett (from March 2007)

## Executive Management

### Chief Executive

Shaun Coffey

### General Manager Science and Technology

George McMeel

### General Manager Commercialisation and Business Development

Wynn Ingram

### General Manager Corporate Services

George McIrvine

### Executive Officer

Jeff Lycett

### Registered Office

Gracefield Research Centre

Gracefield Road

PO Box 31-310

Lower Hutt 5040

New Zealand

Phone +64 4 931 3000

Fax +64 4 566 6004

### Auckland

Brooke House

24 Balfour Road, Parnell

PO Box 2225

Auckland 1140

New Zealand

Phone +64 9 920 3100

Fax +64 9 307 0618

### Christchurch

5 Sheffield Crescent

Bishopdale

PO Box 20-028

Christchurch 8543

New Zealand

Phone +64 3 358 9189

Fax +64 3 358 9506

## Associate Company

HTS-110 Limited

Chief Executive

Sohail Choudhry

www.hts-110.com

## International Contacts

### JAPAN

Dr Yasuhiro Sekimoto

2-2-36 #302, Uenonishi

Toyonaki-shi, Osaka 560-0011

Phone +81 6 6848 7612

Fax +81 6 6842 3136

## Auditors

PricewaterhouseCoopers

113-119 The Terrace

Wellington

On behalf of the Controller and Auditor General

## Solicitors

Russell McVeagh

48 Shortland Street

Auckland

## Patent Attorneys

AJ Park

Huddart Parker Building

1 Post Office Square

Wellington

Baldwins

342 Lambton Quay

Wellington

## Bankers

The National Bank of

New Zealand

280 Queen Street

Auckland

## Website

www.irl.cri.nz

