

+ Financial Statements

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Financial trends analysis

Group	FY2008 \$000	FY2008 \$000 SCI Budget*	FY2007 \$000	FY2006 \$000	FY2005 \$000	FY2004 \$000
Operating revenue	57,133	52,424	55,018	73,812	60,165	57,716
Interest received	39	280	48	106	23	55
Gain on disposal of property, plant and equipment	8	-	1,060	9,494	-	332
Revenue from trading	57,086	50,701	53,910	64,212	60,142	57,329
Depreciation	4,441	3,573	5,399	6,517	6,448	6,524
Interest expense	660	1,165	1,035	1,913	1,465	1,359
Non-operating items	143	-	1,010	7,712	931	483
Earnings/(deficit) before interest, tax and non-operating items*	1,309	(793)	(2,073)	532	(6,068)	(3,753)
Net surplus/(deficit) before tax	543	(1,678)	(3,010)	507	(8,441)	(5,208)
Net surplus/(deficit) after tax	543	(1,678)	(5,710)	(1,634)	(5,371)	(4,037)

	FY2008 \$000	FY2008 \$000 SCI Budget*	FY2007 \$000	FY2006 \$000	FY2005 \$000	FY2004 \$000
Funds employed						
Equity	28,583	27,078	19,760	25,173	26,450	26,806
Borrowings	9	10,913	11,873	12,665	23,064	21,482
Other term liabilities	568	616	616	881	1,003	1,053
	29,160	38,607	31,746	38,159	50,517	49,341
Use of funds						
Working capital	(4,660)	(3,975)	(3,269)	(1,629)	(1,567)	(437)
Non-current assets	33,820	42,582	35,518	40,348	52,084	49,778
	29,160	38,607	31,746	38,159	50,517	49,341
Gearing %	5.13%	28.73%	39.25%	35.36%	46.76%	44.70%

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

Financial indicators

	FY2008 Actual	FY2008 SCI Budget*	FY2008 Budget	FY2007 Actual	FY2006 Actual
Earnings performance					
Revenue from trading (\$000s)	57,086	50,701	60,986	53,910	64,212
Earnings/(deficit) before interest, tax and non-operating items (EBIT) (\$000s) *	1,309	(793)	(1,746)	(2,073)	532
EBIT* margin (%)	3.29%	-1.56%	-2.86%	-3.74%	0.83%
Net surplus before tax (\$000s)	543	(1,678)	(676)	(3,010)	507
Net surplus after tax (\$000s)	543	(1,678)	(676)	(5,710)	(1,634)
EBIT* to average funds employed (%)	4.30%	-3.42%	-5.50%	-5.78%	1.21%
Return (EBIT*) on average equity (\$000s)	5.47%	-7.24%	-9.07%	-9.19%	2.08%
Return (EBIT*) on assets (\$000s)	3.36%	-1.51%	-4.50%	-3.95%	0.97%
Financial Position					
Current ratio	0.52	0.72	0.66	0.61	0.87
Quick ratio	0.51	0.73	0.56	0.63	0.94
Average equity ratio	0.61	0.50	0.48	0.43	0.47
Time interest covered	2.11	(0.68)	-1.67	-1.95	0.28
Gearing (debt component)	0.05	0.30	0.37	0.39	0.35
Crown nominal investment (\$000s)	28,583	27,079	18,832	19,760	25,173
Other statistics					
Revenue from trading per FTE (\$000s)	185.95	163.00	198.65	176.75	174.02
Number of staff (FTEs)					
– research teams	216	231	216	216	269
– research support	31	31	31	23	27
– general support and management	60	60	60	66	73

* 1. The SCI targets are reported separately to the final budgeted figures for IRL. These figures were completed and submitted prior to the budget for the financial year being finalised. The face of the financial statements use the final budgeted figures not the SCI targets.

2. The SCI figures for revenues were prepared for the 2008 year net of external contract research costs with other similar entities. The reporting format used was in line with previous practice. The budget figures are prepared with all revenue figures shown as gross for external financial reporting purposes.

3. IRL does not intend to pay a dividend to the Crown for the year ended 30 June 2008.

Key performance indicators

Strategy One:

Deliver research solutions through more effective engagement with New Zealand industry

Measure	Method	Target	Outcome
High-potential companies identified and engagement strategies developed	Identification completed, operational plans agreed for 07/08 activities	2	Completed
New patents granted in New Zealand	Number completed	8	4
New patents granted overseas	Number completed	5	7
Licensing arrangements entered into	Number completed	5	2
Joint ventures or formal associations	Number completed	3	2
Commissioned reports to users	Number completed	Base to be established post-contracting with FRST	56
Start-up companies (spin-off or spin-out)	Number completed	2	0

Strategy Two:

Grow our research, development and application excellence

Measure	Method	Target	Outcome
Number of peer reviewed articles and publications	Number completed	120	49
Submitted conference papers	Number completed	90	89
Books/book chapter	Number completed	6	11
Invited presentations on technical information and R&D to customers and contracted clients, community forums, parliamentary talks	Number completed	6	111
Visiting scientists (self-funded)	Visits over 3 months	3	7
Establish project selection and management processes	Project management system revised and adopted	Apr-08	Stage one completed
Align Science KPI with Crown reporting requirements	Additional KPIs identified for 08/09	Apr-08	Completed

Strategy Three:

Build our research capacity

Measure	Method	Target	Outcome
Establish long-term capital equipment investment schedule	Plan endorsed by Board	Feb-08	A 3-year capital equipment plan currently in place is being extended to 10 years to include all capital requirements
Establish long-term site/location development plans	Plan endorsed by Board	May-08	A space planning committee is operational and dealing with current space needs; more work is required to define long term site and space requirements
Review utilities costs	Introduce activities to contain costs	Dec-07	Procurement practices have been put in place to reduce costs across IRL; however, aging and expensive site infrastructures mean that reducing utilities costs without capital expenditure is difficult
Review inventory management	New inventory management and procurement systems introduced	Mar-08	Existing management systems have been enhanced in line with ongoing procurement enhancements

Strategy Four:

Achieve organisational sustainability through revenue diversification and operational effectiveness

Measure	Method	Target	Outcome
Revenue	Revenue/budget	Budget	Revenue has not met expectations, particularly in commercial revenue areas. Enhanced business development resource and capability are expected to improve delivery on this in 08/09
EBIT	EBIT/budget	Budget	EBIT is well ahead of budget due to success of procurement and cost control strategies. This will be difficult to replicate in financial year 08/09
Cash flow	Operating cash flow	Budget	Operating cash flow has improved with a positive cash flow from operations
Staff/HR development	Health and safety compliance	100%	Audits completed and IRL retained its secondary rating with ACC

Staff satisfaction	Annual staff survey	5-10% improvement	Improvement achieved
Capital Investment	Equal to budget	Budget	On track
Complete analysis of existing revenue sources	Opportunities and deficiencies identified, new revenue model	Mar-08	Analysis has been completed of customers over the previous 3 years and with the customer satisfaction survey this will identify existing and new customer opportunities
Involvement in COREs, R&D consortia, etc	Number completed	2	4
R&D joint venture	Number completed	2	7
Successful funding bids	% of bids awarded	>50% of initial bids	Of the total number of bids initially submitted to FRST in the contestable investment round, IRL was successful in having 67% proceed to full consideration, and of these 56% were funded

Strategy Five:

Ensure that our systems, processes and execution deliver our mission

Measure	Method	Target	Outcome
Introduced comprehensive performance management	Balanced scorecard operational	Feb-08	Fully operational
Review standard operating procedures and management information systems	Ongoing needs established and investment/development schedule agreed	Progressive through year	Systems reviewed with existing systems being utilised fully in the short term over the next 2 years
Establish operational planning mechanisms	High-level operational plan in existence	Progressive through year	Detailed operational plans in existence
Return IRL to the standing planning cycles	Strategic Plan, SCI and budget finalised before 30 June 2008	30-Jun-08	Completed

Board of Directors

Roles and responsibilities

Under the Crown Research Institute Act 1992, the operating principles of a Crown Research Institute 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 Institute Act 1992 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 Chief Executive'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 11 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 Institute 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.

Bio-Sol Limited

R Furneaux

GlycoSyn Technologies Limited

Non-trading

S G Coffey

Industrial Research PTY Limited

S G Coffey, J Maleki

Innovation Finance Limited

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

(amalgamated into IRL Group 14 April 2008)

Measurement Standards Laboratory of NZ Limited

S G Coffey

MTP-Matcor Pte Limited

(Ceased trading while company is wound up)

Sonic Ray Technology Limited

G McIrvine, P Weatherly

Superlink Developments Limited

S G Coffey, J McDonald, B Rhoades (Chair)

Composition of associates

HTS-110 Limited

S G Coffey (from July 2008),

A Coupe, M Dossor (until November 2007),

N Jordan (from November 2007),

J Maguire, A Mazzoleni (until September 2007),

I M Parton (Chair)

General Cable Superconductors Limited

Began trading 19 December 2007

C Birkett, R Buckley, S G Coffey, G Diack (Chair),

A Gilmore, R MacDonald (from 30 May 2008)

Register of interests

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

M Ahie – Director, Bio Commerce Centre Limited; Director, Manawatu Investment Group Limited; Chief Executive, Shirlaws New Zealand Limited; Director, Shirlaws Coaching Limited and Shirlaws Pty Limited; Director, Clearwater Limited; Director, Jama Property Limited; Trustee, Ripotautahi Whanau Trust; Trustee, The Jama Trust.

S G Coffey – Director, Quest Reliability LLC; Director, MacDiarmid Institute for Advanced Materials and Nanotechnology; Director, Science New Zealand Limited.

D Henry – Chair, Bullet Freight Systems Limited; Chair, Androgenix Limited; Director, Burns & Ferrall Limited; Director, Keratec Limited; Director, Klein Medical Limited; Director, Henry Manufacturing Limited; Director, Henry and Associates Limited; Director, Maven Wines Limited; Director, Trust House Limited; Director, Wool Equities Limited.

A Mazzoleni – Director, Maz Group Limited; Associate Member, Commerce Commission.

I M Parton – Deputy Chair, Watercare Services Limited; Chair, HTS-110 Limited; Chair, VT Fitzroy Limited; Member, Civil and Environmental Engineering Department Advisory Board; Trustee, University of Auckland Foundation; Trustee, AUEA Charitable Trust.

B Rhoades – Principal, Brian L Rhoades and Associates Limited; Chair, Council of Nelson-Marlborough Institute of Technology; Chair, Nelson Electricity; Commissioner, Tertiary Education Commission; Professional Development Contractor, Council Member and Nelson Branch Chairman, Institute of Directors in New Zealand Inc; Director, Superlink Developments Limited.

M Simmons – Director, Biocatalyst Limited; Director, Maurice Wilkins Centre for BioDiscovery; Member, NZBio Auckland Management Committee; Chief Executive, Cure Kids Venture Management Limited.

C Stobo – Deputy Chair, Appello Services Limited; Chair, AMP Multiplex Management Limited; Chair, OGC Consulting Group Limited; Director, Saturn Portfolio Management Limited and Saturn Investment New Zealand Limited; Chair, Elevation Capital Management Limited; Chair, Southwest Trustee Limited; Director, AH Stobo Limited and Stobo Group Limited; Director, Innovation Finance Limited; Trustee, Stobo Family 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 wilful acts or omissions. The insurance cover is provided by QBE Insurance (International). The cost of the cover for the year to 30 November 2008 is \$23,903.

Board attendances for 2007/08

	IRL Board	Audit & Risk Committee	Remuneration Committee
M Ahie	9	n/a	1
D Henry	10	3	n/a
A Mazzoleni	9	n/a	n/a
I M Parton	11	3	1
B Rhoades, Chair	11	3	1
C Stobo, Deputy Chair	11	3	n/a
M Simmons	10	n/a	n/a

Directors' remuneration table

IRL Board of Directors	IRL Board Fees (\$)	Sub-committee Fees (\$)	Subsidiary Fees (\$)	IRL Board Fees (\$)	Sub-committee Fees (\$)	Subsidiary Fees (\$)
FY2008			FY2007			
M Ahie	29,000	-	-	-	-	-
D Henry	29,000	-	-	-	-	-
A Mazzoleni	27,350	-	19,667	22,500	17,850	24,000
R Nottage	-	-	-	22,500	1,400	-
I M Parton	29,000	-	13,125	22,500	4,700	38,750
B Rhoades	58,000	-	-	45,000	6,100	-
M Simmons	21,750	-	-	-	-	-
C Stobo	37,075	-	8,333	28,125	3,300	10,000
Total	231,175	-	41,125	140,625	33,350	72,750
External directors of subsidiaries						
A Coupe			20,333			14,000
J Cunningham			8,333			10,000
J L Walley			8,333			10,000
Total	231,175	-	78,124	140,625	33,350	106,750

Employees' remuneration

Industrial Research Limited'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 is included in the following table. During the year, compensation payments were made to three employees totalling \$143,045 (2007: 25 employees totalling \$1,596,078*)

	FY2008	FY2007
\$440,000 - \$449,999	-	1
\$430,000 - \$439,999	-	1
\$410,000 - \$419,999	1	-
\$370,000 - \$379,999	-	1
\$320,000 - \$329,999	-	1
\$300,000 - \$309,999	-	1
\$260,000 - \$269,999	-	-
\$240,000 - \$249,999	-	-
\$230,000 - \$239,999	-	-
\$210,000 - \$219,999	-	3
\$200,000 - \$209,999	1	-
\$190,000 - \$199,999	1	-
\$180,000 - \$189,999	-	2
\$170,000 - \$179,999	-	-
\$160,000 - \$169,999	2	1
\$150,000 - \$159,999	6	4
\$140,000 - \$149,999	4	2
\$130,000 - \$139,999	4	4
\$120,000 - \$129,999	5	5
\$110,000 - \$119,999	5	13
\$100,000 - \$109,999	6	8

* 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 sub-committees. The membership and terms of reference for the committees are reviewed regularly by the Board.

Audit and Risk Committee Membership

C Stobo (Chair) I M Parton B Rhoades D Henry

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 as required, but no less than four times a year. In 2007/08 three meetings were held.

Remuneration Committee Membership

B Rhoades (Chair) I M Parton M Ahie

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 CEO.

In addition, it is responsible for oversight of the IRL Remuneration Strategy and its implementation. The Remuneration committee meets only as required and during the 2007/08 year it met once.

Report of the Auditor-General

To the readers of
INDUSTRIAL RESEARCH LIMITED'S FINANCIAL STATEMENTS
For the year ended 30 June 2008

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 2008.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 60 to 97:
 - comply with generally accepted accounting practice in New Zealand; and
 - comply with International Financial Reporting Standards; and
 - the company's financial position as at 30 June 2008; 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 12 September 2008, 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 2008. 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.

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 2008 included on Industrial Research Limited's web-site. The company's board is responsible for the maintenance and integrity of the Industrial Research Limited web site. We have not been engaged to report on the integrity of the Industrial Research Limited web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. 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 12 September 2008 to confirm the information included in the audited financial statements presented on this web site. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Fred Hutchings

On behalf of the Auditor-General

Wellington, New Zealand



PricewaterhouseCoopers

Income Statement

For the year ended 30 June 2008

		GROUP			PARENT	
		2008 ACTUAL	2008 BUDGET	2007 ACTUAL	2008 ACTUAL	2007 ACTUAL
Notes		\$000	<i>Unaudited</i> \$000	\$000	\$000	\$000
Revenue – Crown	3	40,205	40,979	38,632	40,205	38,632
Revenue – Commercial	3	15,300	18,728	13,229	15,298	13,188
Total revenue		55,505	59,707	51,861	55,503	51,820
Other income	3	1,589	1,279	2,168	1,583	2,153
		57,094	60,986	54,029	57,086	53,973
Employee benefit costs	4	(26,677)	(28,094)	(26,478)	(26,677)	(26,392)
Science project and subcontract costs	4	(12,195)	(14,770)	(13,906)	(12,195)	(13,855)
Other expenses	4	(11,824)	(12,527)	(10,433)	(11,758)	(8,060)
Depreciation	10	(4,441)	(4,742)	(4,871)	(4,441)	(4,863)
Amortisation of intangible assets	11	(544)	(500)	(544)	(544)	(545)
Operating profit (loss)		1,413	353	(2,203)	1,471	258
Finance income		39	19	48	39	47
Finance costs		(660)	(1,048)	(1,036)	(1,303)	(1,035)
Share (loss) of associate		(249)	-	(313)	-	
Profit/(Loss) before income tax		543	(676)	(3,504)	207	(730)
Income tax expense	6	-	-	(2,700)	-	(2,700)
Profit/(loss) after income tax for the period from continuing operations		543	(676)	(6,204)	207	(3,430)
Surplus from discontinued operations after income tax	5	-	-	494	-	326
Profit attributable to members of the Parent		543	(676)	(5,710)	207	(3,104)

Statement of Changes In Shareholder's Equity

For the year ended 30 June 2008

		GROUP			PARENT	
		2008 ACTUAL	2008 BUDGET	2007 ACTUAL	2008 ACTUAL	2007 ACTUAL
Notes		\$000	<i>Unaudited</i> \$000	\$000	\$000	\$000
Net surplus/(deficit) for the period, comprising						
Parent shareholders interest		543	(676)	(5,710)	207	(3,104)
Other recognised revenues and expenses						
Foreign currency translation reserve		8	-	(13)	-	-
Total recognised income and expenses for the year		543	(676)	(5,723)	207	(3,104)
Contribution from owners						
Share issue		8,280	280	310	8,280	310
Amalgamation of subsidiary		12	-	-	2,307	-
Movement in equity for the period		8,823	(396)	(5,413)	10,794	(2,794)
Equity at beginning of period as previously reported						
Prior period adjustment		10	570	-	570	586
Equity at beginning of period		19,760	19,228	24,587	21,010	23,804
EQUITY AT END OF PERIOD		8	28,583	19,760	31,804	21,010

Balance Sheet

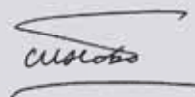
As at 30 June 2008

		GROUP			PARENT	
		2008 ACTUAL	2008 BUDGET	2007 ACTUAL	2008 ACTUAL	2007 ACTUAL
Notes		\$000	<i>Unaudited</i> \$000	\$000	\$000	\$000
EQUITY						
Issued capital	8	32,840	24,840	24,560	32,840	24,560
Retained earnings	8	(4,257)	(6,008)	(4,800)	(1,036)	(3,550)
Other reserves	8	-	-	-	-	-
TOTAL EQUITY		28,583	18,832	19,760	31,804	21,010
<i>Represented by:</i>						
CURRENT ASSETS						
Cash and cash equivalents	7	98	746	738	78	697
Trade and other receivables	9	4,201	3,831	3,519	4,192	3,514
Inventories	20	806	870	870	806	870
Total current assets		5,105	5,447	5,127	5,076	5,081
NON-CURRENT ASSETS						
Other financial assets	14	478	471	254	478	254
Investment in associates using the equity method	13	563	1,806	812	3,807	-
Investment in subsidiaries	12	-	-	-	-	11,310
Accounts receivable	9	350	-	350	350	350
Deferred tax	19	-	-	-	-	-
Property, plant and equipment	10	31,670	30,379	33,293	31,670	33,293
Intangible assets	11	759	800	809	759	809
Total non-current assets		33,820	33,456	35,518	37,064	46,016
TOTAL ASSETS		38,925	38,903	40,645	42,140	51,097
CURRENT LIABILITIES						
Trade and other payables	21	4,676	4,454	3,774	4,670	3,769
Employee benefits	17	2,575	2,477	2,742	2,575	2,740
Interest-bearing loans and borrowings	16	1,456	-	569	1,456	569
Derivative financial instruments	24	7	-	-	7	-
Income in advance	18	1,051	1,311	1,311	1,051	1,311
Total current liabilities		9,765	8,242	8,396	9,759	8,389
NON-CURRENT LIABILITIES						
Employee benefits – provision for long service leave	17	568	756	616	568	616
Advances from subsidiaries	27	-	-	-	-	9,209
Interest-bearing loans and borrowings	16	9	11,073	11,873	9	11,873
Total non-current liabilities		577	11,829	12,489	577	21,698
TOTAL LIABILITIES		10,342	20,071	20,885	10,336	30,087
NET ASSETS		28,583	18,832	19,760	31,804	21,010

The Board of Directors of Industrial Research Limited authorised these financial statements for issue on 5 September 2008.



Brian Rhoades
Chairman



Craig Stobo
Deputy Chairman

Cash Flow Statement

For the year ended 30 June 2008

	GROUP			PARENT	
	2008 ACTUAL	2008 BUDGET	2007 ACTUAL	2008 ACTUAL	2007 ACTUAL
	Notes \$000	Unaudited \$000	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES					
<i>Cash was provided from:</i>					
Receipts from Crown	40,205	40,979	38,758	40,205	38,758
Receipts from commercial customers	15,669	19,536	15,786	15,665	15,686
Interest received	39	19	47	39	47
Intellectual property	378	418	1,495	376	1,490
	56,291	60,952	56,086	56,285	55,981
<i>Cash was applied to:</i>					
Payments to suppliers	(23,393)	(28,088)	(28,042)	(23,325)	(27,874)
Payments to employees	(26,876)	(27,153)	(27,422)	(26,875)	(27,237)
Interest paid	(660)	(1,048)	(1,036)	(660)	(1,035)
	(50,929)	(56,289)	(56,500)	(50,860)	(56,146)
Net cash flows from operating activities	22	5,362	(414)	5,425	(165)
CASH FLOWS FROM INVESTING ACTIVITIES					
<i>Cash was provided from:</i>					
Sale of property, plant and equipment	8	-	1,118	8	1,114
Proceeds from sale of subsidiary	-	-	1,080	-	1,133
	8	-	2,198	8	2,247
<i>Cash was applied to:</i>					
Purchase of property, plant and equipment	(3,313)	(2,738)	(2,909)	(3,313)	(2,891)
Advances of loans to subsidiaries	-	-	-	-	(702)
Purchase of intangible assets	-	(150)	-	-	-
Purchase of long-term investments	-	-	(497)	-	-
	(3,313)	(2,888)	(3,406)	(3,313)	(3,593)
Net cash flows from investing activities	(3,305)	(2,888)	(1,208)	(3,305)	(1,346)
CASH FLOWS FROM FINANCING ACTIVITIES					
<i>Cash was provided from:</i>					
Term borrowings	-	-	-	-	-
Issue of ordinary shares	8,280	280	310	8,280	310
	8,280	280	310	8,280	310
<i>Cash was applied to:</i>					
Repayment of term debt	(10,447)	(1,118)	(250)	(10,447)	(250)
Finance lease principal payments	(530)	(251)	-	(530)	-
Loan to subsidiary/associate	-	(678)	-	(42)	-
	(10,977)	(2,047)	(250)	(11,019)	(250)
Net cash flows from financing activities	(2,697)	(1,767)	60	(2,739)	60

Cash Flow Statement (continued)

For the year ended 30 June 2008

	GROUP			PARENT	
	2008 ACTUAL	2008 BUDGET	2007 ACTUAL	2008 ACTUAL	2007 ACTUAL
Notes	\$000	<i>Unaudited</i> \$000	\$000	\$000	\$000
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	(640)	8	(1,562)	(619)	(1,451)
Cash, cash equivalents and bank overdrafts at beginning of year	738	738	2,300	697	2,148
CASH, CASH EQUIVALENTS AT END OF YEAR	98	746	738	78	697
<i>Cash balance at end of year comprises:</i>					
Cash and on call deposits	98	746	738	78	697
CASH, CASH EQUIVALENTS AT END OF YEAR	98	746	738	78	697

Notes to the Financial Statements

For the year ended 30 June 2008

1. CORPORATE INFORMATION

The financial statements of Industrial Research Limited Group are for the year ended 30 June 2008. Industrial Research Limited is a limited liability entity registered under the Companies Act 1993 incorporated and domiciled in New Zealand. The address of the registered office is Gracefield Research Centre, 69 Gracefield Road, Lower Hutt.

Industrial Research Limited operates as a Crown Research Institute that uses world-class research and advanced technology to assist industry and add value to New Zealand's economy.

These consolidated financial statements have been approved for issue by the Board of Directors on 5 September 2008.

The entity's owners do not have the power to amend these financial statements once issued.

Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993, the Financial Reporting Act 1993, the Crown Entities Act 2004 and the Crown Research Institutes Act 1993. The financial statements have also been prepared on a historical cost basis, except for derivative financial instruments which are at fair value through profit and loss.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

(a) Standards adopted early by the Group

No standards have been adopted by the Group before the effective date of the standards.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- NZ IAS 23 (amendment), "Borrowing costs" (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 July 2009 but is currently not applicable to the Group as there are no qualifying assets.
- NZ IFRS 8, "Operating segments" (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply NZ IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

Statement of compliance

The financial statements comply with generally accepted accounting practice in New Zealand, which includes New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as applicable for profit oriented entity. Compliance with NZ IFRS ensures that the financial statements comply with International Financial Reporting Standards ("IFRSs").

This is the first set of financial statements prepared based on NZ IFRS, and comparatives for the year ended 30 June 2007 have been restated accordingly. Reconciliations of previously reported equity under NZ FRS as at 30 June 2007 and 30 June 2006, and net deficit as at 30 June 2007 to the balances reported in the 30 June 2008 financial statements are detailed in note 2 below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Industrial Research Limited and its subsidiaries, associates and joint ventures as at 30 June each year ("the Group"). Subsidiaries are all those entities over which the Group has the power to govern the financial and operations policies generally accompanying a shareholding of more than half of the voting rights. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Industrial Research Limited has control.

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at fair value of the assets given and liabilities incurred at the date of exchange. Identifiable assets and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Investment in associate

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The group investment in associates is accounted for under the equity method of accounting in the consolidated financial statements.

The financial statements of the associate are used by the Group to apply the equity method. The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

Interest in joint venture operation

The Group's interest in jointly controlled entities is accounted for by proportionate consolidation. The Group combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flow on a line by line basis with similar items in the Group financial statements.

Foreign currency translation

Both the functional and presentation currency of Industrial Research Limited and its subsidiaries is New Zealand dollars (\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial statements are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of overseas subsidiaries are translated into the presentation currency of Industrial Research Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Property, plant and equipment

Land, buildings, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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.

Depreciation rates and residual values are reviewed every year and are calculated on a straight-line basis to allocate their cost to their residual values over the estimated useful life of the asset as follows:

	Estimated useful life	Depreciation basis
Land is not depreciated		
Freehold buildings	10 to 40 years (dependent on age)	Straight line
Building auxiliary services	10 to 20 years	Straight line
Computer equipment	3 to 5 years	Straight line
Plant and scientific equipment	3 to 15 years	Straight line
Motor vehicles	3 to 5 years	Straight line
Office furniture, fittings and equipment	3 to 5 years	Straight line

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Intangible assets

(a) Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to all intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the "amortisation of intangible assets" line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged to the income statement in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(b) Research and development costs

Research costs are expensed as incurred.

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

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

Any expenditure capitalised is amortised over the period of expected future sales from the related project from the point the asset is ready for use.

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

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and right to use the specific software.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (notes 7 and 9).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The company has no such assets.

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement within “other (losses)/gains – net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group’s right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as “gains and losses from investment securities”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value.

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

- Raw materials – purchase cost on a first-in, first-out basis
- Work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are expensed to the income statement when identified.

Cash and cash equivalents

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

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Provisions

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

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the income statement as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue

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

Grants

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

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Rendering of services

Revenue from research contract services is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

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

Dividend incomes

Dividend income is recognised when the shareholders' right to receive the payment is established.

Employee benefits

(a) Bonus plans

The Group recognises a liability and expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholder. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement age or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance date are discounted to their present value.

(c) Long service leave and retiring grants

Long service leave and retiring grants are payable to employees who were employed by the Department of Scientific and Industrial Research prior to 1 July 1992. These obligations are valued annually by completion of an independent actuary valuation or by internal valuation.

Income tax

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

Deferred income tax liabilities is provided in full for all taxable temporary differences

- except if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction effects neither accounting or taxable profit nor loss;

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Derivative financial instruments

The Group enters into derivative financial instruments such as foreign currency contracts. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Group's derivative financial instruments are not designated as hedging instruments for accounting purposes. Accordingly, derivative financial instruments are reported as financial instruments at fair value through the income statement.

Transition to NZ IFRS

Industrial Research Limited financial statements for the year ended 30 June 2008 are the first financial statements that comply with NZ IFRS. Industrial Research Limited has applied NZ IFRS 1 in preparing these financial statements.

Industrial Research Limited transition date is 1 July 2006. Industrial Research Limited prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2008. The Industrial Research Limited NZ IFRS adoption date is 1 July 2007.

In preparing these consolidated financial statements in accordance with NZ IFRS 1, Industrial Research Limited has applied the mandatory exceptions and certain optional exemptions from full retrospective application of NZ IFRS.

Exemptions from full retrospective application elected by Industrial Research Limited

Industrial Research Limited has elected to apply the following optional exemptions from full retrospective application:

A. Business combinations exemption

Industrial Research Limited has applied the business combinations exemption in NZ IFRS 1. It has not restated business combinations that took place prior to the 1 July 2006 transition date.

Industrial Research Limited is required to make the following mandatory exception from retrospective application:

B. Estimates exception

Estimates under NZ IFRS at 1 July 2006 are consistent with estimates made for the same date under previous NZ GAAP.

2. EXPLANATION OF TRANSITION TO NZ IFRS

Industrial Research Limited financial statements for the year ended 30 June 2008 are the first financial statements that comply with NZ IFRS. Below is a summary of impact of the transition to NZ IFRS on the balance sheet for the parent and group and income statement for the parent and group.

Reconciliation of equity – Parent

Notes	Previous NZ FRS 1 July 2006 \$000	Effect on Transition to NZ IFRS 1 July 2006 \$000	NZ IFRS 1 July 2006 \$000	Previous NZ FRS 1 July 2007 \$000	Effect on Transition to NZ IFRS 1 July 2007 \$000	NZ IFRS 1 July 2007 \$000
ASSETS						
Current assets						
	2,148	-	2,148	697	-	697
	6,202	-	6,202	3,514	-	3,514
	982	-	982	870	-	870
	157	(157)	-	-	-	-
	9,489	(157)	9,332	5,081	-	5,081
Non-current assets						
	8,000	-	8,000	11,310	-	11,310
	364	-	364	-	-	-
	148	-	148	254	-	254
	-	-	-	350	-	350
	675	-	675	-	-	-
a,b	33,234	2,235	35,469	33,532	(809)	32,723
a	3,078	(3,078)	-	-	-	-
b	-	1,000	1,000	-	809	809
	2,700	-	2,700	-	-	-
	48,199	157	48,356	45,446	-	45,446
	57,688	-	57,688	50,527	-	50,527
LIABILITIES						
Current liabilities						
	8,022	-	8,022	5,080	-	5,080
	629	-	629	569	-	569
c	3,212	26	3,238	2,673	67	2,740
	11,863	26	11,889	8,322	67	8,389
Non-current liabilities						
	881	-	881	616	-	616
	9,035	-	9,035	9,209	-	9,209
	12,665	-	12,665	11,873	-	11,873
	22,581	-	22,581	21,698	-	21,698
	34,444	26	34,470	30,020	67	30,087
	23,244	(26)	23,218	20,507	(67)	20,440

EQUITY

Share capital		24,250	-	24,250	24,560	-	24,560
Retained earnings	c	(1,006)	(26)	(1,032)	(4,053)	(67)	(4,120)
Total equity attributable to Parent		23,244	(26)	23,218	20,507	(67)	20,440

Explanatory notes – Reconciliation of equity

a. Properties held for resale

Properties previously classified as intended for resale no longer meet the definition of property intended for resale under NZ IFRS.

Book value of \$3,078,000 and \$157,000 has been transferred back to property, plant and equipment.

b. Intangible assets

Computer software was classified as part of property, plant and equipment under previous NZ FRS. The net book value of computer software reclassified as an intangible asset on transition to NZ IFRS is \$1,000,000 at 30 June 2006 and at 30 June 2007, \$809,000.

c. Sick leave

Sick leave was not recognised as a liability under previous NZ FRS. NZ IAS 19 requires Industrial Research Limited to recognise employees' unused sick leave entitlement that can be carried forward at balance date, to the extent that Industrial Research Limited anticipates it will be used by staff to cover future absences. The deferred tax effect of this adjustment, \$22,000, has not been recognised.

Reconciliation of equity – Group

	Notes	Previous NZ FRS 1 July 2006 \$000	Effect on Transition to NZ IFRS 1 July 2006 \$000	NZ IFRS 1 July 2006 \$000	Previous NZ FRS 1 July 2007 \$000	Effect on Transition to NZ IFRS 1 July 2007 \$000	NZ IFRS 1 July 2007 \$000
ASSETS							
Current assets							
Cash and cash equivalents		2,300	-	2,300	738	-	738
Trade and other receivables		6,831	-	6,831	3,519	-	3,519
Inventories		1,088	-	1,088	870	-	870
Property, plant and equipment held for sale		406	(406)	-	-	-	-
Total current assets		10,625	(406)	10,219	5,127	-	5,127
Non-current assets							
Investment in associates		628	-	628	812	-	812
Other investments		148	-	148	254	-	254
Accounts receivable		-	-	-	350	-	350
Property, plant and equipment	a,b	33,234	2,484	35,718	33,532	(809)	32,723
Property, plant and equipment held for sale	a	3,078	(3,078)	-	-	-	-
Intangible assets	b	-	1,000	1,000	-	809	809
Deferred tax		2,700	-	2,700	-	-	-
Total non-current assets		39,788	406	40,194	34,948	-	34,948
Total Assets		50,413	-	50,413	40,075	-	40,075

	Notes	Previous NZ FRS 1 July 2006 \$000	Effect on Transition to NZ IFRS 1 July 2006 \$000	NZ IFRS 1 July 2006 \$000	Previous NZ FRS 1 July 2007 \$000	Effect on Transition to NZ IFRS 1 July 2007 \$000	NZ IFRS 1 July 2007 \$000
LIABILITIES							
Current liabilities							
Payables and accruals		8,143	-	8,143	5,085	-	5,085
Current portion of borrowings		798	-	798	569	-	569
Employee benefits	c	3,313	26	3,339	2,675	67	2,742
Total current liabilities		12,254	26	12,280	8,329	67	8,396
Non-current liabilities							
Employee benefits		881	-	881	616	-	616
Borrowings		12,665	-	12,665	11,873	-	11,873
Total non-current liabilities		13,546	-	13,546	12,489	-	12,489
Total Liabilities		25,800	26	25,826	20,818	67	20,885
Net Assets		24,613	(26)	24,587	19,257	(67)	19,190
EQUITY							
Share capital		24,250	-	24,250	24,560	-	24,560
Reserves		(24)	-	(24)	-	-	-
Retained earnings	c	387	(26)	361	(5,303)	(67)	(5,370)
Total equity attributable to Parent		24,613	(26)	24,587	19,257	(67)	19,190

Explanatory notes – Reconciliation of equity

a. Properties held for resale

Properties previously classified as intended for resale no longer meet the definition of property intended for resale under NZ IFRS.

Book value of \$3,078,00 and \$406,000 has been transferred back to property, plant and equipment.

b. Intangible assets

Computer software was classified as part of property, plant and equipment under previous NZ FRS. The net book value of computer software reclassified as an intangible asset on transition to NZ IFRS is \$1,000,000 at 30 June 2006 and at 30 June 2007, \$809,000.

c. Sick leave

Sick leave was not recognised as a liability under previous NZ FRS. NZ IAS 19 requires Industrial Research Limited to recognise employees' unused sick leave entitlement that can be carried forward at balance date, to the extent that Industrial Research Limited anticipates it will be used by staff to cover future absences. The deferred tax effect of this adjustment, \$22,000, has not been recognised.

Reconciliation of profit/loss for the year ended 30 June 2007

	Notes	GROUP			PARENT		
		Previous NZ FRS	Effect on Transition to NZ IFRS	NZ IFRS	Previous NZ FRS	Effect on Transition to NZ IFRS	NZ IFRS
		30 June 2007 \$000	30 June 2007 \$000	30 June 2007 \$000	30 June 2007 \$000	30 June 2007 \$000	30 June 2007 \$000
Income							
Rendering of services – Crown		38,632	-	38,632	38,632	-	38,632
Rendering of services – Commercial		14,337	-	14,337	14,279	-	14,279
Investment income		48	-	48	47	-	47
Gain on disposal of property plant, and equipment		1,060	-	1,060	1,062	-	1,062
Total income		54,077	-	54,077	54,020	-	54,020
Operating expenditure	a	(57,046)	(41)	(57,087)	(54,383)	(41)	(54,424)
Profit/(loss) before tax		(2,969)	(41)	(3,010)	(363)	(41)	(404)
Income tax expense		(2,700)	-	(2,700)	(2,700)	-	(2,700)
Profit/(loss) after tax		(5,669)	(41)	(5,710)	(3,063)	(41)	(3,104)

a. Sick leave

Sick leave was not recognised as a liability under previous NZ FRS. NZ IAS 19 requires Industrial Research Limited to recognise employees' unused sick leave entitlement that can be carried forward at balance date, to the extent that Industrial Research Limited anticipates it will be used by staff to cover future absences.

3. REVENUE AND OTHER INCOME

	GROUP		PARENT	
	2008	2007	2008	2007
	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000
REVENUE				
Crown revenue				
Foundation for Research, Science and Technology	33,862	32,509	33,862	32,509
Ministry of Research, Science and Technology	5,763	5,512	5,763	5,512
The Royal Society of New Zealand	580	611	580	611
Total Crown	40,205	38,632	40,205	38,632
Commercial revenue				
Commercial – domestic	7,303	7,046	7,303	7,010
Commercial – overseas	7,619	4,688	7,619	4,688
Licensing fees	13	1,084	13	1,084
Royalties	365	411	363	406
Total commercial revenue	15,300	13,229	15,298	13,188
Total Revenue	55,505	51,861	55,503	51,820
OTHER INCOME				
Gain on sale of property, plant and equipment	8	1,060	8	1,062
Equipment rental	776	489	776	489
Other income	805	619	799	602
Total other income	1,589	2,168	1,583	2,153
TOTAL INCOME FROM CONTINUING ACTIVITIES	57,094	54,029	57,086	53,973

4. EXPENDITURE

	GROUP		PARENT	
	2008	2007	2008	2007
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Other operating expenses from continued operations				
Auditors' fees				
– for auditing the financial statements	97	92	95	87
– for other assurance services	-	48	-	48
– for other services	-	11	-	11
Bad debt expense	41	-	41	-
Directors' fees	309	281	231	221
Employee costs				
– Salary and wages	25,492	24,967	25,492	24,879
– Redundancy	143	1,419	143	1,419
Interest expense	660	1,035	1,303	1,035
Movement in provision for doubtful debts	96	(211)	96	(211)
Rent and lease expenses	685	985	685	990
Donations	11	1	11	1
Foreign exchange (gains)/losses	57	80	57	79
Revaluation of investments (gain)/loss	(223)	-	(223)	-
Science project and subcontract costs*	12,195	13,906	12,195	13,855

* During the year Industrial Research Limited invested \$207,000 in New Zealand Synchrotron Limited. The directors view was that the economic benefits flowing from this investment would be minimal and therefore impaired this investment to \$nil.

5. DISCONTINUED ACTIVITIES

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 have been re-presented to show the discontinued operations separately from continuing operations.

Revenue and expenses after tax are disclosed below.

	GROUP		PARENT	
	2008	2007	2008	2007
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Trading income		941	-	756
Expenses				
Depreciation		12		5
Impairment of assets – reversal		(409)		(409)
Finance costs		1		-
Employee termination costs		836		836
Foreign exchange (gains)		-		(2)
Rental and operating leases		7		-
		-		447
				-
Income tax expense		-		-
Surplus from discontinued operations after income tax		-		494
				-
				326

Business sale	
Total consideration	1,483
Cash	1
Other assets	1,618
Liabilities	(136)
Net assets sold	1,483

6. TAXATION

	GROUP		PARENT	
	2008	2007	2008	2007
	ACTUAL	ACTUAL	ACTUAL	ACTUAL

Major components of income tax expense for the years ended 30 June 2008 and 30 June 2007

Income statement

Current income tax

Current income tax charge/(credit)	587	(1,017)	587	(1,017)
Derecognition of losses	(524)	1,090	(524)	1,090
Derecognition of temporary differences	(63)	2,627	(63)	2,627
Total tax expense reported in the income statement	-	2,700	-	2,700

Reconciliation of income tax expense

Profit/(loss) attributable to members of the Parent	543	(5,710)	207	(730)
Income tax expense	-	(2,700)	-	(2,700)
Profit/(loss) before income tax	543	(3,504)	207	(730)
Tax at current rate of 33%	179	(1,156)	67	(241)
Adjustment to taxation:				
Capital gains	(74)	(363)	(74)	(1,358)
Non-deductible expenses	151	141	151	130
Fair dividend rate	4	-	4	-
Writedown of investments	-	-	-	47
Loss utilisation by subsidiaries	-	-	195	225
Earnings of associates/joint venture	82	117	-	-
Earnings of foreign subsidiary	-	8	-	-
Prior period adjustments	189	271	189	215
Revaluation of investments	-	(35)	-	(35)
Derecognition of losses	(502)	1,090	(503)	1,090
Derecognition of temporary differences	(29)	2,627	(29)	2,627
Total tax expense	-	2,700	-	2,700
Tax expense from continuing operations	-	2,700	-	2,700

The corporate tax rate in New Zealand has changed from 33% to 30% effective from 1 April 2008.

Unrecognised deferred tax assets

	GROUP		PARENT	
	2008	2007	2008	2007
	ACTUAL	ACTUAL	ACTUAL	ACTUAL

Deferred tax assets have not been recognised in respect of the following items:

Unrecognised temporary differences (note 19)	7,712	8,018	7,712	8,018
Tax losses	13,552	14,779	13,552	14,779

7. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2008 ACTUAL	2007 ACTUAL	2008 ACTUAL	2007 ACTUAL
	\$000	\$000	\$000	\$000
Cash at bank and in hand	98	738	78	697
CASH, CASH EQUIVALENTS AT END OF PERIOD	98	738	78	697

8. EQUITY

	GROUP		PARENT	
	2008 ACTUAL	2007 ACTUAL	2008 ACTUAL	2007 ACTUAL
	\$000	\$000	\$000	\$000
SHARE CAPITAL				
Balance at beginning of year	24,560	24,250	24,560	24,250
Share Issue made during period	8,280	310	8,280	310
CLOSING SHARE CAPITAL	32,840	24,560	32,840	24,560
RESERVES				
Foreign currency translation reserve				
Balance at beginning of year	-	(24)	-	(24)
Current period adjustment	-	(13)	-	(13)
Transfer on sale of subsidiary	-	37	-	37
BALANCE AT END OF PERIOD	-	-	-	-
RETAINED EARNINGS				
Balance at beginning of year	(4,800)	947	(3,550)	(446)
Net surplus/(deficit) for the period	543	(5,710)	207	(3,104)
Amalgamation of subsidiary	-	-	2,307	-
Transfer from currency translation reserve	-	(37)	-	-
BALANCE AT END OF PERIOD	(4,257)	(4,800)	(1,036)	(3,550)
TOTAL EQUITY				
Balance at beginning of year	19,760	25,173	21,010	23,780
Movements during period	8,823	(5,413)	10,794	(2,770)
BALANCE AT END OF PERIOD	28,583	19,760	31,804	21,010
SHARE CAPITAL				
Issued and paid up capital	2008	2008	2007	2007
Movements in the Company's issued ordinary shares were as follows:	Number	\$000	Number	\$000
Shares at beginning of year	21,763,454	24,560	21,549,660	24,250
Shares issued during period	8,808,510	8,280	213,794	310
SHARES AT THE END OF THE PERIOD	30,571,964	32,840	21,763,454	24,560

All issued shares are fully paid and have no par value.

Each share is ranked equally and confers on the holder the right to vote at any general meeting of the Company.

On 20 November 2007 the Company issued 297,872 shares at \$0.94 per share to the Crown.

On 18 December 2007 the Company issued 8,510,638 shares at \$0.94 per share to the Crown.

FOREIGN CURRENCY TRANSLATION RESERVE

Translation differences arising on the retranslation of the results of subsidiaries with functional currencies other than New Zealand dollars are recognised directly in the Foreign Currency Translation Reserve.

9. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	GROUP		PARENT	
	2008	2007	2008	2007
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Current				
Trade receivables	3,296	2,884	3,296	2,884
Less: Provision for doubtful debts	(155)	(62)	(155)	(62)
	3,141	2,822	3,141	2,822
Accrued income	182	65	182	65
Income tax receivable	9	-	9	-
Other receivables	23	27	14	22
Prepayments	846	605	846	605
CURRENT RECEIVABLES	4,201	3,519	4,192	3,514
Non-current				
Settlement due from disposal of subsidiary	350	350	350	350
NON-CURRENT RECEIVABLES	350	350	350	350

The carrying amount of trade receivables are equivalent to fair values.

Trade receivables includes amounts due from related parties. See note 27 for details.

a. Provision for doubtful debts

At 30 June 2008 trade receivables of \$155,000 were considered impaired. The impaired receivables were from a number of customers.

	GROUP	
	2008	2007
	ACTUAL	ACTUAL
	\$000	\$000
Opening balance	62	737
Recognised during the year	155	73
Released	(35)	(607)
Utilised	(27)	(141)
CLOSING BALANCE	155	62

b. Past due but not impaired

At 30 June 2008 trade receivables of \$1,093,000 (2007 \$686,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The aging of trade receivables is as follows;

	GROUP	
	2008	2007
	ACTUAL	ACTUAL
	\$000	\$000
Within 1 month	848	467
Within 1 to 3 months	73	150
Beyond 3 months	172	69
	1,093	686

10. PROPERTY, PLANT AND EQUIPMENT

	Land Assets \$000	Building Assets \$000	Plant Assets \$000	Capital Work in Progress \$000	Total Parent \$000	Total Group \$000
1 July 2007						
Cost or valuation	3,001	39,778	35,861	159	78,799	78,799
Accumulated depreciation	-	(17,995)	(27,511)	-	(45,506)	(45,506)
Carrying amount	3,001	21,783	8,350	159	33,293	33,293
For the year ended 30 June 2008						
Carrying amount at 1 July 2007	3,001	21,783	8,350	159	33,293	33,293
Additions	-	250	1,908	664	2,822	2,822
Transfers from capital work in progress	-	72	443	(515)	-	-
Disposals	-	-	(4)	-	(4)	(4)
Depreciation	-	(2,369)	(2,072)	-	(4,441)	(4,441)
Carrying amount 30 June 2008	3,001	19,736	8,625	308	31,670	31,670
Cost or valuation	3,001	41,542	42,960	308	87,811	87,811
Accumulated depreciation	-	(21,806)	(34,335)	-	(56,141)	(56,141)
Carrying amount	3,001	19,736	8,625	308	31,670	31,670

	Land Assets \$000	Building Assets \$000	Plant Assets \$000	Capital Work in Progress \$000	Total Parent \$000	Total Group \$000
1 July 2006						
Cost or valuation	3,001	41,116	41,149	645	85,911	85,911
Accumulated depreciation	-	(15,974)	(29,492)	-	(45,466)	(45,458)
Carrying amount	3,001	25,142	11,657	645	40,445	40,453
Twelve months ended 30 June 2007						
Carrying amount at 1 July 2006	3,001	25,142	11,657	645	39,930	39,930
Additions	-	21	1,603	336	1,960	1,960
Transfers from capital work in progress	-	83	739	(822)	-	-
Disposals	-	-	(246)	-	(246)	(246)
Asset impairment writedown	-	(666)	(3,337)	-	(4,003)	(4,003)
Depreciation	-	(2,797)	(2,066)	-	(4,863)	(4,871)
Carrying amount 30 June 2007	3,001	21,783	8,350	159	33,293	33,293
Cost or valuation	3,001	39,778	35,861	159	78,799	78,799
Accumulated depreciation	-	(17,995)	(27,511)	-	(45,506)	(45,506)
Carrying amount	3,001	21,783	8,350	159	33,293	33,293

Impairment

In December 2006 assets previously used by BioPharm, a division of Industrial Research Limited, were impaired to their recoverable amount assessed at fair value less costs of disposal. Operations of BioPharm had ceased as at 30 June 2006. BioPharm assets have been transferred to the Group's other operations.

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 either demolition, indemnity or replacement values. In line with other businesses in the Wellington region, the Group faces higher rates of exclusions on the fixed asset replacement policies. For material damage cover in Wellington the excess is 5% (capped at \$2,500,000) of the site value, in Auckland this is 1% and 2.5% for Christchurch. On current insured values this would equate to an excess value of \$2,500,000 of the reinstatement value of \$288 million for buildings, plant and equipment for the Gracefield site.

Finance leases

Included in plant assets at 30 June 2008 are assets capitalised under finance leases with a cost of \$1,257,000 (30 June 2007: \$2,217,000) together with accumulated depreciation of \$603,000 (30 June 2007: \$1,153,000).

Prior period adjustment

During the current year a system calculation error was noted such that certain buildings depreciation charge was calculated over a useful life of 15 years rather than 40 years.

This has been corrected as an error and the comparative figures restated, the effect of the adjustment on net profit, equity and the carrying value of fixed assets for 30 June 2007 is shown below;

	2007 \$000
Fixed assets	570
Equity	570
Net (loss) for the year	(16)

11. INTANGIBLE ASSETS

	GROUP	PARENT
	2008 Software \$000	2008 Software \$000
Balance at 1 July 2007		
Cost	3,934	3,934
Accumulated amortisation	(3,125)	(3,125)
Opening carrying amount	809	809
For the year ended 30 June 2008		
Additions	494	494
Amortisation charge	(544)	(544)
Balance at 30 June 2008	759	759
Cost	4,428	4,428
Accumulated amortisation	(3,669)	(3,669)
Closing carrying amount	759	759
	GROUP	PARENT
	2007 Software \$000	2007 Software \$000
Balance at 1 July 2006		
Cost	3,782	3,782
Accumulated amortisation	(2,750)	(2,750)
Opening carrying amount	1,032	1,032

Year ended 30 June 2007

Additions	328	328
Amortisation charge	(544)	(544)
Disposals – cost	(176)	(176)
Disposals – accumulated depreciation	169	169

Balance at 30 June 2007

Cost	3,934	3,934
Accumulated amortisation	(3,125)	(3,125)
Closing carrying amount	809	809

Finance leases

Included in intangible assets at 30 June 2008 are assets capitalised under finance leases (leased software) with a cost of \$965,000 (30 June 2007: \$965,000) together with accumulated amortisation of \$806,000 (30 June 2007: \$579,000).

12. INVESTMENT IN SUBSIDIARIES

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

Name of entity	Principal activities	Interest held by the Group	
		2008	2007
Measurement Standards Laboratory of New Zealand Limited	Non-operating – name protection	100%	100%
Industrial Research Pty Limited	Non-operating – name protection in Australia	100%	100%
GlycoSyn Technologies Limited	Non-operating – name protection	100%	100%
Superlink Developments Limited	Bare trustee of certain intellectual property	67%	67%
Bio-Sol Limited	Non-operating – for involvement in consortium	100%	100%
Innovation Finance Limited	Equity investment in start-up companies	-	100%
Damping Systems Limited	Earthquake damping technology	-	100%

All subsidiaries have 30 June balance dates.

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 resolved to close the company on 19 June 2007.

Damping Systems Limited was removed from the New Zealand register of companies on 14 September 2007.

Amalgamation of subsidiary

On 14 April 2008, Innovation Finance Limited was amalgamated into the Parent. Until the date of amalgamation, Innovation Finance Limited had been a wholly owned subsidiary of the Parent. Under the amalgamation the Parent took control of all the assets of Innovation Finance Limited and assumed responsibility for its liabilities. Innovation Finance Limited has been removed from the New Zealand register of companies.

Summary of effect of the amalgamation of Innovation Finance Limited

	PARENT
	2008 \$000
Investment in associate company	3,807
Intercompany receivable	9,812
Accrued expenses	(2)
	13,617
Carrying amount of shares in amalgamated company	(11,310)
Balance recognised in the statement of movements in equity	2,307

13. INVESTMENT IN ASSOCIATES

	Interest Held by the Group	
	2008	2007

Details of associates

Significant associates comprise the following. The financial data shown is for the associate as a whole.

Name of entity	Principal activities	Interest Held by the Group			
		2008	2007		
HTS-110 Limited	Commercialisation of superconductor activity	49.76%	49.76%		
		\$000	\$000		
	Total assets	1,290	1,848		
	Total liabilities	(217)	(216)		
	Total revenue	2,480	2,181		
	Net profit/(loss)	(500)	(623)		
MPT-Matcor Pte Limited (company currently being divested)	Plant life cycle services in ASEAN region	50.00%	50.00%		
		\$000	\$000		
	Total assets	-	16		
	Total liabilities	-	(738)		
	Total revenue	-	139		
	Net profit / (loss)	-	(25)		
		Group Carrying Value		Parent Carrying Value	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
HTS-110 Limited	Commercialisation of superconductor activity	563	812	3,807	-
MPT-Matcor Pte Limited	Plant life cycle services in ASEAN region	-	-	-	-
		563	812	3,807	-

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

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

Results of associates

	Group Carrying Value		Parent Carrying Value	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Share of loss before income tax	(249)	(313)	-	-
Total recognised revenues and expenses	(249)	(313)	-	-

Interests in associates

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Carrying amount at beginning of the year	812	628	-	364
Amortisation	-	-	-	(69)
Acquisition as the result of amalgamation of subsidiary	-	-	3,807	-
Share of total recognised revenues and expenses	(249)	(313)	-	-
Purchase of additional shares	-	497	-	(295)
	563	812	3,807	-

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

On 14 April 2008 Innovation Finance Limited was amalgamated with Industrial Research Limited and the investment in HTS-110 transferred to Industrial Research Limited.

14. OTHER FINANCIAL ASSETS

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Investment at fair value through profit and loss				
American Superconductor Limited	478	254	478	254
	478	254	478	254

15. 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	GROUP
	2008 \$000	2007 \$000
Share of revenue	10	23
Share of expenses	(15)	(37)
SHARE OF NET DEFICIT	(5)	(14)
Cash at bank	20	27
Trade receivables	8	4
Trade creditors	(5)	(3)
NET ASSETS EMPLOYED IN THE JOINT VENTURE	23	28

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

16. BORROWINGS

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current portion				
Capitalised finance lease obligations	250	569	250	569
Energy Efficiency and Conservation Authority	3	-	3	-
National Bank term advances facility	1,203	-	1,203	-
TOTAL CURRENT BORROWING	1,456	569	1,456	569
Non-current portion – unsecured				
Capitalised finance lease obligations	-	223	-	223
Energy Efficiency and Conservation Authority	9	-	9	-
National Bank term advances facility	-	11,650	-	11,650
TOTAL NON-CURRENT BORROWING	9	11,873	9	11,873

The carrying value of borrowing is equivalent to the fair value

The National Bank term advances facility is unsecured however Industrial Research Limited has undertaken a negative pledge agreement with the bank.

TERM LIABILITY MATURITY PROFILE

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Years of maturity				
2007/2008	-	11,650	-	11,650
2008/2009	1,456	-	1,456	-
2009/2010	3	-	3	-
2010/2011	3	-	3	-
2011/2012	3	-	3	-
TOTAL BORROWINGS	1,465	11,650	1,465	11,650

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Interest rates				
Weighted average effective interest rates on borrowings (%)				
Term advances facility	9.30%	8.61%	9.30%	8.61%
Capitalised finance lease obligations	9.82%	9.28%	9.82%	9.28%
Energy Efficiency and Conservation Authority	-	-	-	-
Gross finance lease obligations				
No later than 1 year	255	566	255	566
Later than 1 year and no later than 5 years	-	257	-	257
Later than 5 years	-	-	-	-
	255	823	255	823
Future finance charges on finance leases	(5)	(60)	(5)	(60)
Present value of finance lease liabilities	250	763	250	763

The present value of finance lease liabilities is as follows:

No later than 1 year	250	525	250	525
Later than 1 year and no later than 5 years	-	238	-	238
Later than 5 years	-	-	-	-
	250	763	250	763

17. EMPLOYEE BENEFITS ACCRUAL

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current				
Employee entitlements	671	983	671	981
Long service and retiring leave	93	140	93	140
Annual leave	1,732	1,552	1,732	1,552
Sick leave	79	67	79	67
	<u>2,575</u>	<u>2,742</u>	<u>2,575</u>	<u>2,740</u>
Non-current				
Long service and retiring leave	568	616	568	616

18. INCOME IN ADVANCE

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Government and other income received in advance	1,051	1,311	1,051	1,311

Income received from government and other customers for project work not completed at 30 June.

19. DEFERRED TAX ASSET

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Balance at beginning of the year	-	2,700	-	2,700
Deferred portion of current period tax expense	-	(2,597)	-	(2,597)
Prior period adjustment	-	(103)	-	(103)
Balance at end of period	-	-	-	-
Deferred tax				
Tax depreciation	669	822	669	822
Provisions and accruals	940	969	940	969
Other	936	855	936	855
Tax effect of unrecognised temporary differences	(2,545)	(2,646)	(2,545)	(2,646)
Tax effect of unrecognised temporary differences	-	-	-	-
Unrecognised tax losses				
New Zealand	13,552	14,779	13,552	14,779
Tax effect of unrecognised tax losses				
New Zealand 30%	4,066	4,434	4,066	4,434
Effect of change in corporate tax rate from 33% to 30%	406	443	406	443
Total	4,472	4,877	4,472	4,877

Unrecognised income tax losses are available subject to the requirements of applicable 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 effects of unrecognised losses and timing differences have been adjusted to reflect this change.

20. INVENTORIES

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Raw materials and consumables	569	359	569	359
Work in progress	237	511	237	511
	806	870	806	870

21. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT PORTION				
Trade creditors	1,813	1,279	1,813	1,279
Sundry creditors	319	448	313	446
Goods and services tax (GST) payable	145	249	145	249
Other payables and accruals	2,399	1,798	2,399	1,795
Total trade and other payables	4,676	3,774	4,670	3,769

Trade payables includes amounts due from related parties. See note 27 for details.
The carrying amounts of the above items are equivalent to the fair values.

22. RECONCILIATION OF OPERATING SURPLUS WITH CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Reported surplus/(deficit) after tax	543	(5,710)	207	(3,104)
<i>Add/(less) non-cash items:</i>				
Depreciation	4,441	4,871	4,441	4,863
Amortisation of intangible assets	544	544	544	544
Impairment of property, plant and equipment	-	(409)	-	(409)
Revaluation of shares	(224)	(106)	(224)	(106)
Movement in taxation provision	-	2,700	-	2,700
Subsidiary/associate company investment writedown	-	-	-	143
Share of earnings retained by associates	249	313	-	-
Gain on disposal of subsidiary	-	-	-	(3,015)
Net current assets of business sold	-	(1,195)	-	(604)
Non-cash interest	-	-	643	748
(Surplus)/deficit on sale of plant and equipment	(8)	(1,060)	(8)	(1,062)
Movement in foreign exchange revaluation reserve	-	(12)	-	-
<i>Add/(less) movements in working capital:</i>				
Accounts receivable	(680)	3,312	(677)	2,688
Inventory	64	218	64	112
Trade creditors	433	(3,880)	435	(3,663)
NET CASH FLOWS FROM OPERATING ACTIVITIES	5,362	(414)	5,425	(165)

23. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of long service and retiring leave

The fair value of long service and retiring leave liability is determined by use of estimates of retiring age, probability of meeting retirement criteria and discounting future estimated payments. For the year ended 30 June 2007 the valuation of this liability was calculated by an actuary. The total liability calculated was \$756,000. For the year ended 30 June 2008 the liability was calculated internally using a discount cash flow model. The total liability at 30 June 2008 was \$661,000.

Adjusting the discount rate up/down by 1% results in an increase/decrease of the 2008 retiring/long service leave liability balance and hence end of year profit before tax of \$42,000.

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments is determined by valuations received from the Group's bankers. The valuations have been disclosed in the balance sheet and income statement for each year. The net impact of valuing these contracts at 30 June 2008 at a mark to market valuation was a net loss of \$7,000 (2007: \$nil).

Reliance is placed on the Group's banker to provide correct valuations for financial derivatives.

Critical judgements in applying the entity's accounting policies

(a) Revenue recognition

The Group holds revenue in advance of \$1,051,000 (2007: \$1,311,000). A significant source of revenue for Industrial Research Limited is project based. Revenue is recognised on an accruals basis, which involves posting revenue to the income statement only when it is earned. Managers review projects and provide an assessment of project status. Based upon this assessment revenue in advance adjustments are made to the accounts.

Based upon this assessment total revenue in advance as a percentage of total income at 30 June 2008 was 1.8% of total revenue (2007: 2.4%).

24. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to mitigate certain risk exposures.

Risk management is carried out by the finance group under policies approved by the Board of Directors. Finance identifies, evaluates and hedges financial risks in consultation with operational units. The Board provides written principles and advice for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposure, primarily with respect to the US dollar and Australian dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group use forward contracts transacted through Group finance. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Group finance treasury policy is to take forward cover between 75% and 100% of anticipated cash flows (mainly overseas revenue receipts and purchase of materials). A process of natural hedge and forward cover contracts are used to hedge foreign currency risk. Between 60% and 70% of foreign currency receipts are used to purchase goods payable in foreign currency. Forward cover contracts are utilised to repatriate remaining foreign currency balances.

At 30 June 2008, if the \$NZD had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been: strengthened \$42,000 loss, weakened \$52,000 profit (2007: strengthened \$61,000 loss, weakened \$74,000 profit) as the result of foreign exchange gains/losses on translation of US dollar denominated trade receivables/payables.

At 30 June 2008, if the \$NZD had weakened/strengthened by 10% against the Australian dollar with all other variables held constant, post tax profit for the year would have been, strengthened \$22,000 loss, weakened \$27,000 profit (2007: strengthened \$9,000 loss, weakened \$11,000 profit,) as the result of foreign exchange gains/losses on translation of Australian dollar denominated trade receivables.

	\$000 Loans and Receivables	\$000 Fair value through income statement	\$000 Available for sale
Financial instruments by category			
As at June 2008			
Cash and cash equivalents	98	-	-
Trade and other receivables	4,551	-	-
Publicly traded investments	-	-	478
	4,649	-	478
Liabilities			
Borrowings	1,468	-	-
Derivative financial instruments	-	7	-
	1,468	7	-
As at June 2007			
Assets			
Cash and cash equivalents	738	-	-
Trade and other receivables	3,869	-	-
Publicly traded investments	-	-	254
	4,607	-	254
Liabilities			
Borrowings	12,442	-	-
Derivative financial instruments	-	-	-
	12,442	-	-

Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from term borrowings. Borrowing issued at variable rates exposes the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain at least 30% of its borrowings in fixed rate instruments.

During the 2007 and 2008 year the Group's borrowings were denominated in New Zealand dollars.

The Group analyses its interest rate exposure on a periodic basis. Based on these periodic analysis the impact on post-tax profit of a 0.1% shift would be a maximum increase/decrease of \$7,000 (2007: \$12,000).

The Group uses fixed rate debt to minimise its exposure to fluctuating interest rates.

As at balance date the Group had not used interest rate swaps to hedge interest rate risk.

Credit risk

Financial instruments which potentially subject Industrial Research Limited and the Group to credit risk principally consist of cash and cash equivalents, trade and other receivables, and interest rate swaps and options.

Credit risk is minimised as a result of several key controls:

- maintaining maximum limits for each broad class of counterparty and individual counterparties
- limiting investments to organisations with a long-term Standard & Poor's credit rating of AA- or better
- controlling the level and spread of trade and other receivables outstanding.

As a result of these controls there are no significant concentrations of credit risk.

The table below shows the credit limit and balance of the one major counterparty at the balance sheet date.

	30 June 2008		30 June 2007	
	Credit Limit	Balance	Credit Limit	Balance
	\$000	\$000	\$000	\$000
National Bank of New Zealand	15,100	1,203	15,000	11,650

Liquidity risk

Liquidity risk is the risk that Industrial Research Limited cannot meet its financial obligations in full.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group finance maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cashflows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year \$000	Between 1-2 years \$000	Between 2-5 years \$000	Over 5 years \$000
At 30 June 2008				
Cash	98	-	-	-
Trade and other receivables	4,201	-	-	-
Borrowings	(1,206)	(3)	(6)	-
Finance lease	(250)	-	-	-
Derivative financial instruments	(7)	-	-	-
Trade and other payables	(4,676)	-	-	-

	Less than 1 Year \$000	Between 1-2 Years \$000	Between 2-5 Years \$000	Over 5 Years \$000
At 30 June 2007				
Cash	738	-	-	-
Trade and other receivables	3,519	-	-	-
Borrowings	-	(11,873)	-	-
Finance lease	(319)	(250)	-	-
Derivative financial instruments	-	-	-	-
Trade and other payables	(3,774)	-	-	-

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant

	Less than 1 Year \$000	Between 1-2 Years \$000	Between 2-5 Years \$000	Over 5 Years \$000
At 30 June 2008				
Forward foreign exchange contracts - cash flow hedges				
Outflow	-	-	-	-
Inflow	522	-	-	-

	Less than 1 Year \$000	Between 1-2 Years \$000	Between 2-5 Years \$000	Over 5 Years \$000
At 30 June 2007				
Forward foreign exchange contracts - cash flow hedges				
Outflow	-	-	-	-
Inflow	-	-	-	-

The Group holds no forward foreign exchange contracts held for trading purposes.

25. CAPITAL RISK MANAGEMENT

The Group's capital includes share capital, reserves and retained earnings.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital.

Net debt is calculated as total borrowings (including "current and non-current" borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The Group is not subject to externally imposed capital requirements and there has been no material change in management of capital in the year.

During 2008 the Group's strategy was to maintain the gearing ratio below 45%. The gearing ratios at 30 June 2008 and 2007 were as follows:

	GROUP	
	2008	2007
Total borrowings	1,465	12,442
Less: cash and cash equivalents	(98)	(738)
Net debt	1,367	11,704
Total equity	28,583	19,700
Total debt and equity	29,950	31,464
Gearing ratio	5%	37%

The decrease in the gearing ratio during 2008 resulted primarily from the issue of share capital.

26. OTHER EXPENSES

Severance payments

Severance payments include any consideration (monetary or non-monetary) provided to any employee in respect of the employee's agreement to the termination of their employment with Industrial Research Limited.

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Severance payments	143	2,068	143	2,068
Number of employees	2	25	2	25

27. RELATED PARTIES DISCLOSURES

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000

KEY MANAGEMENT PERSONNEL COSTS

Salary and other short-term benefits (including severance payments where applicable)	1,030	1,971	1,030	1,971
---	-------	-------	-------	-------

The table above includes the remuneration of the Chief Executive and members of the executive management team.

General

The Government of New Zealand is 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 12, the associated entities in note 13 and the joint venture identified in note 15.

	PARENT	
	2008 \$000	2007 \$000

Related party transactions

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

Transactions during the period were:

Sales of services and general recoveries	-	78
Interest paid	643	748

Other related parties:

	PARENT	
	2008 \$000	2007 \$000

Details on the loans from subsidiaries at balance date were:

Innovation Finance Limited	-	9,209
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With entities associated with directors or entities associated with directors' close family members

Transactions during the period were:

Sales of services and general recoveries	794	1,078
Purchase of services	1,110	1,230

Goods are sold based on arm's length prices and terms that would be available to third parties.

Goods and services are purchased from other related parties on normal commercial terms and conditions.

Sales:

Director	Related Party	Relationship	PARENT	
			2008 \$	2007 \$
Brian Rhoades	Institute of Geological and Nuclear Sciences Limited	Brother is an employee	110,895	193,609
Ian Parton	VT Fitzroy Limited	Chairman/director	18,450	12,831
Ian Parton	HTS-110 Limited	Chairman/director	660,537	866,914
Ian Parton	Watercare Services Limited	Director	4,280	4,396
Amounts due from Institute of Geological and Nuclear Sciences Limited			9,569	9,705
Amounts due from Watercare Services Limited			-	45

Purchases:

Director	Related Party	Relationship	PARENT	
			2008 \$	2007 \$
Brian Rhoades	Institute of Geological and Nuclear Sciences Limited	Brother is an employee	45,749	48,522
Ian Parton	VT Fitzroy Limited	Chairman/director	528	560
Ian Parton	HTS-110 Limited	Chairman/director	1,053,457	1,162,812
Maxine Simmons	Bio Catalyst Limited	Director	-	13,780
Maxine Simmons	NZBio	Member	10,422	3,841
Amounts owed to Institute of Geological and Nuclear Sciences Limited			-	13,493

Transactions with associate companies

	PARENT	
	2008 \$000	2007 \$000
Industrial Research Limited is a 49.76% shareholder in HTS-110 Limited. All transactions with HTS-110 Limited are at arm's length.		
Sales of services and general recoveries	661	867
Purchase of services	1,053	1,230
Amounts owed to HTS-110 Limited	-	54
Amounts due from HTS-110 Limited	81	56

28. COMMITMENTS AND CONTINGENCIES

CAPITAL COMMITMENTS

	GROUP		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Commitments for capital expenditure contracted, but not provided for:				
TOTAL CAPITAL COMMITMENTS	2,481	584	2,481	584

OPERATING COMMITMENTS

Commitments for non-cancellable operating leases and other operating commitments:

Not later than one year	1,847	2,441	1,847	2,441
Later than one year and not later than five years	4,134	4,821	4,134	4,821
Later than five years	438	-	438	-
TOTAL OPERATING COMMITMENTS	6,419	7,262	6,419	7,262

Leased assets comprise computer hardware, computer software, office equipment and property leases.

CONTINGENCIES

There were no known contingent liabilities at balance date (2007: \$1,002,735).

29. SEGMENT REPORTING

The entity operates in New Zealand 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 are generated by operations in New Zealand. Therefore there is no requirement for segment reporting. The group has not early adopted IFRS 8, Operating Segments. Please refer to note 1 on early adoption of standards.

30. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after balance date.

Board responsibility statement

The Board 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 2008 fairly reflect the financial position and operations of Industrial Research Limited. This statement is issued in accordance with section 155 Crown Entities Act 2004.

The annual report and the financial statements presented on pages 60 to 97 are signed for and on behalf of the Board and were authorised for issue on the date set out below.



B Rhoades / Chariman



I Parton / Director

Date: 5 September 2008

Directory

Board of Directors

Michael Ahie, Wellington

David Henry, Auckland

Anita Mazzoleni, Auckland

Ian Parton, Auckland

Brian Rhoades, Nelson
Chairman

Maxine Simmons, Auckland

Craig Stobo, Auckland
Deputy Chairman

Secretary, Jeff Lycett

Executive Management

Chief Executive
Shaun Coffey

GM Science and Technology

George McMeel
(until 23 November 2007)
Barry Marlow
(from 4 January 2008)

GM Commercialisation and Business Development

Wynn Ingram
(until December 31 2007)
Suki Siriwardena
(from 28 January 2008)

GM Corporate Services

George McIrvine

Executive Officer
Jeff Lycett

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Associate Company

HTS-110 Limited
Chief Executive
Sohail Choudhry
(until 15 October 2007)
Donald Pooke
(from 1 February 2008)
www.hts-110.com

Joint Venture Company

General Cable
Superconductors Limited
CEO (Acting)
Aaron Gilmore

Auditors

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P O Box 243
Wellington 6140
On behalf of the Controller
and Auditor-General

Solicitors

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Bankers

The National Bank of New Zealand
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