

BRILLIANT IDEAS AT WORK



FINANCIAL STATEMENTS

[34 REPORT OF THE AUDITOR-GENERAL [35 STATEMENT OF FINANCIAL PERFORMANCE [36 STATEMENTS OF FINANCIAL POSITION
[37 STATEMENTS OF CASH FLOWS [38 STATEMENTS OF MOVEMENT IN EQUITY [38 RECONCILIATION OF OPERATING CASH FLOWS
[39 STATEMENT OF ACCOUNTING POLICIES [42 NOTES TO THE FINANCIAL STATEMENTS [53 EARNING TRENDS - UNAUDITED
[54 STATUTORY INFORMATION [55 CORPORATE GOVERNANCE

[Report of the Auditor-General

To the readers of the financial statements of Industrial Research Limited and Group for the year ended 30 June 2002



We have audited the financial statements on pages 35 to 52. The financial statements provide information about the past financial performance, cash flows and financial position of Industrial Research Limited and Group as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 39 to 41.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Crown Research Institutes Act 1992, the Public Finance Act 1989 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements which comply with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of Industrial Research Limited and Group as at 30 June 2002 and the results of its operations and cash flows for the year ended on that date.

AUDITOR'S RESPONSIBILITIES

Section 15 of the Public Audit Act 2001, section 43(1) of the Public Finance Act 1989 and section 21(1) of the Crown Research Institutes Act 1992 requires the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Mr A R Britton, of PricewaterhouseCoopers, to undertake the audit.

BASIS OF OPINION

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

- (a) the significant estimates and judgements made by the Board in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to Industrial Research Limited and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have provided Industrial Research Limited with advice in the area of information technology systems selection. We have no other relationships with or interests in Industrial Research Limited or any of its subsidiaries other than in our capacity as auditor acting on behalf of the Auditor-General.

UNQUALIFIED OPINION

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

In our opinion:

- proper accounting records have been kept by Industrial Research Limited as far as appears from our examination of those records; and
- the financial statements of Industrial Research Limited and Group on pages 35 to 52:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - Industrial Research Limited and Group's financial position as at 30 June 2002; and
 - the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 12 September 2002 and our unqualified opinion is expressed as at that date.

A R Britton

On behalf of the Auditor-General
Auckland, New Zealand

PricewaterhouseCoopers

[Statement of Financial Performance

For the year ended 30 June 2002



12 months to 30 June			12 months to 30 June		
PARENT			GROUP		
2001	2002		2002	2002	2001
Last Year	Actual	Notes	Actual	Budget	Last Year
\$000	\$000		\$000	\$000	\$000
54,402	57,713	Operating revenue	58,654	64,834	56,282
51,342	54,233	Operating expenses	55,456	57,730	53,019
-	765	Reorganisational expenses	765	-	-
204	317	Subsidiary / Associate investment writedown	-	-	-
2,856	2,398	Earnings before interest and tax	2,433	7,104	3,263
352	700	Net interest	698	904	332
2,504	1,698	Operating surplus before income tax	1,735	6,200	2,931
896	719	Income tax	719	2,062	1,080
1,608	979	Operating surplus after income tax	1,016	4,138	1,851
-	-	Share of retained surpluses / (deficits) of associate company after tax	(143)	-	(151)
-	-	Minority interests after tax	49	-	(18)
1,608	979	NET EARNINGS	922	4,138	1,682

[Statements of Financial Position

As at 30 June 2002

As at 30 June PARENT			As at 30 June GROUP		
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2002 Budget \$000	2001 Last Year \$000
		Notes			
EQUITY					
16,250	16,250	Share capital	2	16,250	16,250
-	-	Reserves	3	58	(7)
11,278	12,257	Retained earnings	4	11,999	15,234
27,528	28,507	SHAREHOLDERS' EQUITY		28,307	31,484
-	-	Minority interests		(24)	30
27,528	28,507	TOTAL EQUITY		28,283	27,350
NON CURRENT LIABILITIES					
9,659	16,688	Long term liabilities	5	16,688	16,120
9,659	16,688			16,688	9,659
CURRENT LIABILITIES					
442	-	Bank overdraft		68	442
5,486	7,829	Payables and accruals	6	8,622	6,047
14	-	Taxation payable	10	-	5
4,170	3,616	Staff entitlements and related provisions		3,647	4,214
182	188	Current portion of long term liabilities	5	188	182
10,294	11,633			12,525	10,890
47,481	56,828	TOTAL EQUITY AND LIABILITIES		57,496	47,899
NON CURRENT ASSETS					
36,460	46,608	Property, plant and equipment	11	46,843	36,531
203	-	Intangible assets	9	1,491	363
982	843	Future taxation benefit	10	825	962
1,677	864	Interest in associates	14	846	1,414
188	1,547	Investment in and advances to subsidiaries	13	-	-
39,510	49,862			50,005	39,270
CURRENT ASSETS					
-	238	Cash and bank balances		397	456
-	300	Taxation receivable	10	300	-
7,358	5,396	Accounts receivable	7	5,640	7,518
613	1,032	Inventory	8	1,154	655
7,971	6,966			7,491	8,629
47,481	56,828	TOTAL ASSETS		57,496	47,899

For and on behalf of the Board:



Chairman: Dr R. A. Armstrong

Date: 12 September 2002



Director: T. W. Newton

[Statements of Cash Flows

For the year ended 30 June 2002

12 months to 30 June PARENT			12 months to 30 June GROUP		
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2002 Budget \$000	2001 Last Year \$000
		Notes			
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
33,101	33,392	Receipts from Crown	33,392	33,203	33,101
19,781	28,052	Receipts from customers	29,002	27,719	22,681
105	68	Interest received	76	50	125
52,987	61,512		62,470	60,972	55,907
Cash was disbursed to:					
(22,836)	(27,734)	Payments to employees	(28,202)	(27,812)	(24,933)
(21,595)	(22,828)	Payments to suppliers	(23,798)	(24,189)	(22,924)
(865)	(123)	Inter-company cashflows (net)	-	-	-
(476)	(707)	Interest paid	(713)	(954)	(476)
(1,385)	(894)	Net income tax paid	(885)	(2,081)	(1,538)
(83)	(110)	Goods and services tax (net)	(110)	1,570	(12)
(47,240)	(52,396)		(53,708)	(53,466)	(49,883)
5,747	9,116	Net cash inflow from operating activities	8,762	7,506	6,024
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
28	12	Proceeds from sale of fixed assets	12	-	33
Cash was applied to:					
195	(112)	Advances (to) / from subsidiary companies	-	-	-
(1,153)	(758)	Advances (to) / from associates	(708)	(400)	(1,153)
-	-	Purchase of subsidiaries	(94)	-	-
-	-	Development activities	-	-	(161)
(7,887)	(14,239)	Purchase of fixed assets	(14,291)	(14,018)	(7,926)
(8,817)	(15,097)	Net cash outflow from investing activities	(15,081)	(14,418)	(9,207)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
2,250	6,700	Term borrowings	6,700	6,950	2,250
2,250	6,700		6,700	6,950	2,250
Cash was applied to:					
(3)	(39)	Finance lease repayments	(39)	-	(3)
-	-	Repayment of term borrowings	-	-	-
2,247	6,661	Net cash inflow from financing activities	6,661	6,950	2,247
(823)	680	Net increase (decrease) in cash held	342	38	(936)
-	-	Foreign currency translation adjustment	(27)	-	-
(314)	-	Cash arising on amalgamation	-	-	-
695	(442)	Cash at beginning of year	14	16	950
(442)	238	Ending cash carried forward	329	54	14
Cash balances per statement of financial position					
(442)	-	Bank overdraft	(68)	-	(442)
-	238	Cash at bank	397	54	456
(442)	238	Ending cash carried forward	329	54	14

[Statements of Movements in Equity

For the year ended 30 June 2002

As at 30 June PARENT			As at to 30 June GROUP		
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2002 Budget \$000	2001 Last Year \$000
25,422	27,528	Equity at 1 July 2001	27,350	27,336	25,648
1,608	979	Net earnings	922	4,138	1,682
-	-	Movement in foreign currency translation reserve	65	10	(10)
498	-	Amalgamation gain	-	-	-
2,106	979	Total recognised revenues and expenses for the period	987	4,148	1,672
-	-	Movements in minority interests	(54)	-	30
27,528	28,507	Equity at 30 June 2002	28,283	31,484	27,350

[Reconciliation of Operating Cash Flow

For the year ended 30 June 2002

12 months to 30 June PARENT			12 months to 30 June GROUP		
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2002 Budget \$000	2001 Last Year \$000
1,608	979	Reported net earnings	922	4,138	1,682
-	-	Associate entity deficits	143	-	151
-	-	Minority interest share of surpluses	(49)	-	18
1,608	979		1,016	4,138	1,851
		Items not involving cash flows			
4,095	4,490	Depreciation	4,510	5,139	4,112
167	203	Development amortisation	203	168	167
(240)	139	Movement in deferred tax	137	(143)	(133)
-	-	Unrealised net change in currency translation	(194)	10	8
498	-	Gain on amalgamation	-	-	-
204	317	Subsidiary / Associate company investment writedown	-	-	-
1,176	(554)	Provisions for employee entitlements	(567)	(16)	924
(11)	(4)	(Surplus) / deficit on sale of fixed assets	2	-	(7)
7,497	5,570	Cash flow from operating activities prior to working capital changes	5,107	9,296	6,922
		Impact of changes in working capital:			
1,636	2,343	Increase (Decrease) in trade creditors	2,581	(238)	1,920
(334)	(314)	Increase (Decrease) in taxation payable	(305)	125	(307)
48	(26)	(Increase) Decrease in inter-company position	-	-	-
(2,978)	1,962	(Increase) Decrease in receivables	1,878	(1,677)	(2,439)
(122)	(419)	(Increase) Decrease in inventory	(499)	-	(72)
(1,750)	3,546		3,655	(1,790)	(898)
5,747	9,116	Net cash inflow from operating activities	8,762	7,506	6,024

ENTITIES REPORTING

The financial statements for the "Parent" are for Industrial Research Limited as a separate legal entity. The consolidated financial statements for the "Group" are for the economic entity comprising Industrial Research Limited, its subsidiaries, joint ventures and associates.

STATUTORY BASE

Industrial Research Limited is a Crown Research Institute registered under the Companies Act 1993.

Industrial Research Limited is a reporting entity for the purposes of the Financial Reporting Act 1993. The financial statements of Industrial Research Limited have been prepared in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

MEASUREMENT BASE

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

ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice.

The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

GROUP FINANCIAL STATEMENTS

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

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

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

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

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

REVENUE

Goods and Services

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

Research Contracts

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

Grants - Government and Foundation for Research, Science & Technology

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

Investment Income

Dividend income is recognised in the period the dividend is declared. Interest and rental income are accounted for as earned.

TAXATION

The taxation expense for the year is based on the accounting surplus, adjusted for permanent differences between accounting and taxation rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

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

GOODS AND SERVICES TAX

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

FOREIGN CURRENCIES

Transactions

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

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

Foreign Operations

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

Statement of Accounting Policies

For the year ended 30 June 2002

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

FIXED ASSETS

Initial Recording

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

Depreciation

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

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

LEASED ASSETS AS LESSEE

Finance leases

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

Operating Leases

Leases that are not finance leases are classified as operating leases. Operating lease payments are recognised as expenses in the period the amounts are payable.

INVESTMENTS

Investments in subsidiaries and associates are stated at cost or net realisable value in the statement of financial position of the Parent. Other investments are stated at the lower of cost or net realisable value.

JOINT VENTURES

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

INTANGIBLE ASSETS

Research and Development

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

Intellectual Property

Intellectual property arising from research and development expenditure is not valued for accounting purposes unless future income earning potential can be clearly established.

Goodwill

The excess of cost over the fair value of the net assets of the subsidiaries and associate entities is recognised as goodwill and is amortised to the statement of financial performance on a straight line basis over the shorter of its estimated useful life or five years.

INVENTORIES

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

CONTRACT WORK IN PROGRESS

The stated cost of contract work in progress includes the cost of direct materials, direct labour plus fixed and variable direct overhead expenses to the last completed stage of either manufacture or research.

ACCOUNTS RECEIVABLE

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

EMPLOYEE ENTITLEMENTS

Annual Leave

Employee entitlements to salaries and wages and annual leave are recognised when they accrue to the employees.

Long Term Employee Entitlements

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

FINANCIAL INSTRUMENTS

Recognised

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



Financial instruments that are designed as hedges of specific items are recognised on the same basis as the underlying hedged items. Financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the statement of financial performance.

Unrecognised

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

Forward exchange contracts entered into as hedges of foreign exchange assets and liabilities are valued at exchange rates prevailing at year end. Any unrealised gains or losses are offset against foreign exchange gains and losses on the related asset or liability. Premiums paid are amortised over the period to maturity.

BUDGET FIGURES

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

STATEMENT OF CASH FLOWS

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

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

CHANGES IN ACCOUNTING POLICY

There have been no other changes in accounting policies.

[Notes to the Financial Statements

For the year ended 30 June 2002

As at 30 June PARENT			As at 30 June GROUP	
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2001 Last Year \$000
1 OPERATING EXPENSES				
Depreciation and related expenses				
244	264	Buildings	264	244
1,039	1,219	Building auxiliary services	1,219	1,039
833	828	Computer equipment	833	864
1,652	1,715	Plant and scientific equipment	1,725	1,720
-	1	Motor vehicles	1	-
270	386	Computer software	387	294
57	77	Office furniture and equipment	81	60
4,095	4,490	Total depreciation	4,510	4,221
(11)	(4)	Net (gain) / loss on sale of property plant and equipment	2	(7)
167	203	Amortisation of development expenses	203	167
4,251	4,689		4,715	4,381
Costs of offering credit				
20	22	Bad debts written off	22	21
(12)	-	Reduction in estimated doubtful debts	-	(12)
8	22		22	9
Auditors' fees				
53	53	Audit fees paid to principal auditors	53	53
2	-	Audit fees paid to other auditors	18	37
-	24	Fees paid for other assurance services provided by principal auditors	24	-
55	77		95	90
Reorganisational expenses				
-	765	Employee termination costs	765	-
Net interest				
457	768	Interest cost on long term facilities	774	457
(105)	(68)	Interest received	(76)	(125)
352	700		698	332
Other expenses				
(392)	181	Foreign exchange (gains) / losses	181	(379)
762	738	Rental and operating lease costs	789	804
12	5	Donations	5	12
2 SHARE CAPITAL				
Ordinary shares				
16,250	16,250	Balance at beginning of year	16,250	16,250
-	-	Share issue made during the year	-	-
16,250	16,250	Balance at the end of year	16,250	16,250
Share issue details - ordinary shares				
As at 30 June 2002 there were 16,250,000 shares issued and fully paid up. (2001: 16,250,000)				
All shares carry equal voting rights and the right to share in any surplus on winding up of the company.				
3 RESERVES				
Foreign currency translation reserve				
-	-	Balance at beginning of year	(7)	10
-	-	Current year performance adjustment	65	(17)
-	-	Balance at the end of year	58	(7)

[Notes to the Financial Statements

For the year ended 30 June 2002

As at 30 June PARENT			As at 30 June GROUP	
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2001 Last Year \$000
4 RETAINED EARNINGS				
Analysis				
9,172	11,278	Balance at beginning of year	11,077	9,395
1,608	979	Net surplus for the year	922	1,682
498	-	Amalgamation adjustment	-	-
11,278	12,257	Balance at the end of year	11,999	11,077
Composition				
11,278	12,257	Parent and wholly owned subsidiaries	12,429	11,304
-	-	Subsidiaries not wholly owned, joint ventures and associates	(430)	(227)
11,278	12,257		11,999	11,077
5 NON CURRENT LIABILITIES				
1,236	1,204	Long term employee entitlements	1,204	1,236
8,550	15,250	National Bank term advances facility	15,250	8,550
55	422	Capitalised lease obligations (secured)	422	55
9,841	16,876		16,876	9,841
Less current portion				
18	88	Capitalised lease obligations (secured)	88	18
164	100	Long term employee entitlements	100	164
182	188	Current portion of non current liabilities	188	182
9,659	16,688	Total non current liabilities	16,688	9,659
PAYABLE BEYOND 30 JUNE 2002 AS FOLLOWS:				
(a) Long term employee entitlements				
100	100	Later than one, not later than two years	100	100
300	300	Later than two, not later than five years	300	300
672	704	Later than five years	704	672
1,072	1,104		1,104	1,072
(b) Term advances facility				
8,550	15,250	Later than one, not later than two years	15,250	8,550
8,550	15,250		15,250	8,550
(c) Capitalised lease obligations				
19	93	Later than one, not later than two years	88	19
18	241	Later than two, not later than five years	246	18
37	334		334	37
9,659	16,688	Total non current liabilities	16,688	9,659
Security				
The term advances facility is secured via a negative pledge held by the National Bank of New Zealand over all assets of the Group.				
Weighted average effective interest rates on borrowings				
6.94%	6.24%	Term advances facility	6.24%	6.94%
9.50%	8.92%	Capitalised lease obligations	8.92%	9.50%

>

[Notes to the Financial Statements

For the year ended 30 June 2002

As at 30 June PARENT			As at 30 June GROUP	
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2001 Last Year \$000
6 PAYABLES AND ACCRUALS				
2,829	3,521	Trade creditors	3,688	2,928
9	6	Inter-company creditors	-	-
153	43	Goods and services tax	25	137
1,207	2,709	Revenue in advance	3,013	1,516
1,288	1,550	Provisions and accruals	1,896	1,466
5,486	7,829	Total current payables and accruals	8,622	6,047
7 ACCOUNTS RECEIVABLE				
Current				
5,962	2,826	Trade debtors including associate companies - refer note 17	3,287	6,127
12	226	Subsidiary company debtors	-	-
(142)	(142)	Less provision for doubtful debts	(142)	(142)
5,832	2,910		3,145	5,985
609	770	Prepayments	772	609
917	1,716	Sundry debtors and accrued income	1,723	924
7,358	5,396	Total current receivables	5,640	7,518
Non current				
178	1,180	Loans to subsidiary companies	-	-
178	1,180	Total non current receivables	-	-
8 INVENTORIES				
74	67	Raw materials - components	153	74
539	594	Work in progress	630	581
-	371	Finished goods - chemicals	371	-
613	1,032	Total inventories	1,154	655
9 INTANGIBLE ASSETS				
Development Expenditure				
370	370	At cost	530	612
-	-	Adjustment from change to associate status of GraceLinc Limited	-	(242)
-	-	Current year development costs recognised as an asset	13	160
-	-	Acquired with new subsidiary at cost	233	-
370	370		776	530
(167)	(370)	Accumulated amortisation	(370)	(167)
203	-		406	363
Goodwill				
-	-	Goodwill arising on acquisition of subsidiary - Refer Note 13	1,000	-
-	-		1,000	-
Intellectual Property Rights				
-	-	Acquired with subsidiary at cost	85	-
-	-		85	-
203	-	Total intangible assets	1,491	363

[Notes to the Financial Statements

For the year ended 30 June 2002

As at 30 June PARENT			As at 30 June GROUP	
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2001 Last Year \$000
10 TAXATION				
Statement of Financial Performance				
2,504	1,698	Reported surplus / (deficit) before taxation	1,735	2,931
-	-	Adjustment for losses not recognised under certainty criteria	280	129
2,504	1,698	Operating surplus subject to taxation	2,015	3,060
826	560	Prima facie taxation @ 33%	665	1,010
Non deductible expenditure				
12	11	Entertainment	11	12
67	105	Investment writedown	-	67
79	116	Total adjustments to prima facie taxation	11	79
(9)	43	Prior period adjustment	43	(9)
896	719	Taxation charge	719	1,080
The taxation charge comprises:				
1,069	548	Current taxation	548	1,234
(164)	128	Deferred taxation	128	(145)
(9)	43	Prior period adjustment	43	(9)
896	719	Taxation charge	719	1,080
The group has available tax losses which can be carried forward subject to the requirements of income tax legislation being met in the countries concerned.				
Taxation payable				
348	14	Opening balance	5	312
1,069	548	Current taxation	548	1,234
(7)	(8)	Interest paid / (received)	(8)	(7)
(1,320)	(795)	Income tax payments during the year	(786)	(1,438)
(65)	(91)	Withholding tax payments	(91)	(75)
10	-	Amalgamation adjustment	-	-
(21)	32	Prior period adjustment	32	(21)
14	(300)	Balance at the end of year	(300)	5
Deferred taxation / (future tax benefit)				
(741)	(982)	Opening balance	(962)	(829)
(164)	128	Deferred portion of current period tax expenses	128	(145)
-	-	Foreign exchange adjustment	(2)	-
(89)	-	Balances transferred on amalgamation	-	-
12	11	Prior period adjustment	11	12
(982)	(843)	Balance at the end of year	(825)	(962)

>>

[Notes to the Financial Statements

For the year ended 30 June 2002

	GROUP					
	Cost		Accumulated Depreciation		Net Carrying Value As at 30 June	
	2002 Actual \$000	2001 Last Year \$000	2002 Actual \$000	2001 Last Year \$000	2002 Actual \$000	2001 Last Year \$000
11 FIXED ASSETS						
Freehold land	3,673	3,673	-	-	3,673	3,673
Freehold buildings	8,718	8,179	1,761	1,498	6,957	6,681
Building auxiliary services	19,627	16,631	5,033	3,814	14,594	12,817
Total land and buildings	32,018	28,483	6,794	5,312	25,224	23,171
Computer equipment	5,628	5,017	3,792	3,184	1,836	1,833
Plant and scientific equipment	23,343	20,606	14,779	13,146	8,564	7,460
Motor vehicles	67	42	43	42	24	-
Computer software	1,879	1,589	1,297	960	582	629
Office furniture and equipment	1,416	1,359	1,176	1,098	240	261
Capital work in progress	9,941	3,121	-	-	9,941	3,121
Total other assets	42,274	31,734	21,087	18,430	21,187	13,304
Fixed assets held under finance leases:						
Office equipment	464	58	32	2	432	56
Total fixed assets	74,756	60,275	27,913	23,744	46,843	36,531

	PARENT					
	Cost		Accumulated Depreciation		Net Carrying Value As at 30 June	
	2002 Actual \$000	2001 Last Year \$000	2002 Actual \$000	2001 Last Year \$000	2002 Actual \$000	2001 Last Year \$000
Freehold land	3,673	3,673	-	-	3,673	3,673
Freehold buildings	8,718	8,179	1,761	1,498	6,957	6,681
Building auxiliary services	19,627	16,631	5,033	3,814	14,594	12,817
Total land and buildings	32,018	28,483	6,794	5,312	25,224	23,171
Computer equipment	5,607	4,991	3,782	3,171	1,825	1,820
Plant and scientific equipment	22,999	20,568	14,644	13,145	8,355	7,423
Motor vehicles	67	42	43	42	24	-
Computer software	1,874	1,587	1,296	960	578	627
Office furniture and equipment	1,397	1,333	1,168	1,091	229	242
Capital work in progress	9,941	3,121	-	-	9,941	3,121
Total other assets	41,885	31,642	20,933	18,409	20,952	13,233
Capitalised finance lease assets	464	58	32	2	432	56
Total fixed assets	74,367	60,183	27,759	23,723	46,608	36,460

Market Value of Land and Buildings

At 30 June 2002 the market value of the company's property portfolio was assessed on an income approach, by registered valuers CB Richard Ellis, in a report prepared in July 2002, at \$24,500,000 (last year \$23,800,000).

Restriction on title

The sale and disposal of land requires the consent of the Shareholding Ministers in accordance with obligations imposed by section 10 of the Crown Research Institutes (CRI) Act 1992. The Auckland and Lower Hutt properties have Treaty of Waitangi caveats registered against their respective titles.

12 FINANCIAL INSTRUMENTS

Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument where it is practical to estimate that value.

Cash at Bank, Bank Overdraft, Short Term Money Market Deposits, Loans Issued, Receivables and Trade Creditors

The carrying value of these items is equivalent to their fair value and they are reflected in the financial statements on that basis.

[Notes to the Financial Statements

For the year ended 30 June 2002

12 FINANCIAL INSTRUMENTS (CONT.)**Credit Risk**

The Group incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The unsecured money market deposits are placed with registered banks with short term credit ratings greater than A1. Exposure to any one financial institution is restricted in accordance with company policy.

Accounts receivable are subject to credit evaluations and amounts owed are unsecured.

At balance date Industrial Research Limited had two customers above the 5% threshold. Combined these customers accounted for 25.76% (2001: 39.1%) of trade receivables. Since balance date the combined exposure has not reduced.

All other receivables are below the 5% threshold and do not expose the company to any other concentration of credit risk.

Investments

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

Foreign Currency Risk

During the normal course of business the Group has contractual commitments denominated in foreign currencies. As a result of these transactions exposure to fluctuations in foreign currency exchange rates arise. The currencies in which the Group primarily deals are the Australian dollar, United States dollar and the Singapore dollar.

It is the Group policy, where contracts for the supply of services in excess of US\$50,000 are entered into in foreign currency, for forward exchange cover to be entered into. The cover taken is set at a minimum of 75% of surplus foreign currency after deducting foreign currency costs arising from the contract.

Unrecognised Balances

The fair value of contract amounts of foreign exchange forward exchange cover contracts at balance date are:

As at 30 June PARENT			As at 30 June GROUP		
2001 Last Year	2002 Actual		2002 Actual	2001 Last Year	
\$000	\$000		\$000	\$000	
-	10,647	Sale commitments receivable	10,647	-	
-	(10,193)	Sale commitments payable	(10,193)	-	
-	454		454	-	

Interest Rate Risk

To ensure that the Group's cost of funds is reasonably predictable from year to year, it is the Group's policy to have a mix of fixed and floating rate debt with fixed debt to comprise a minimum of 50% of total debt. Interest rate swaps and forward rate agreements are used to manage the proportion of fixed rate debt to total debt.

The company had an interest rate swap in place at 30 June 2002 of 7.1% (2001: 7.1%). This interest rate swap matures in late 2002.

Unrecognised Balances

The notional principal or contract amounts of interest rate contracts at balance date are:

As at 30 June PARENT			As at 30 June GROUP		
2001 Last Year	2002 Actual		2002 Actual	2001 Last Year	
\$000	\$000		\$000	\$000	
4,000	4,000	Interest rate swaps	4,000	4,000	
-	6,000	Forward rate agreements	6,000	-	
4,000	10,000		10,000	4,000	

The cash settlement requirement for the interest rate swap at balance date is a payment of \$20,532 (2001: \$53,002).

This is the fair value of the interest rate swap.

For forward rate agreements the approximation of the cash settlement receivable is the current market value, which is \$14,018 (2001: Nil).

[Notes to the Financial Statements

For the year ended 30 June 2002

13 INVESTMENT IN SUBSIDIARIES

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

Name of entity	Principal activities	As at 30 June	
		GROUP'S INTEREST HELD	
		2002	2001
		%	%
Materials Performance Technologies Pty Limited	Specialised scientific consultancy services	100.00	100.00
Measurement Standards Laboratory of New Zealand Limited (MSL)	Non operating - name protection	100.00	100.00
Industrial Research Pty Limited	Non operating - name protection in Australia	100.00	100.00
SRV Limited	Meat industry automation	73.33	17.78
Superlink Developments Limited	Bare trustee for certain intellectual property	67.00	67.00
Anztek Pty Limited	Marketing and commercialisation activities in Australia	51.00	51.00
Kruse Commentary Systems Limited	Tourism industry commentaries utilising GPS	100.00	21.00

All subsidiary entities have a balance date of 30 June.

Materials Performance Technologies Pty Limited, Industrial Research Limited Pty Limited and Anztek Pty Limited are incorporated in Australia. All other subsidiaries are incorporated in New Zealand.

Amalgamation

On 31 March 2001, Comnet Technologies Limited, Materials Performance Technologies Limited and Materials Performance Technologies (Australia) Limited were amalgamated into the Parent. The balance recognised in the statement of movements in equity was \$498,000.

Acquisition of subsidiaries

On 1 October 2001 the Group acquired a further 51.53% of the shares in SRV Limited for a cash consideration of \$49,653. From 1 October 2001 the operating results of SRV Limited have been included in the Group statement of financial performance.

On 30 June 2002 Industrial Research Limited acquired, for a nominal sum, the 79% of Kruse Commentary Systems Limited not already owned which has been consolidated in the Group financial statements.

Summary of the effect of acquisition of subsidiaries	Kruse \$000	SRV \$000
Bank	(68)	24
Net current assets	(1,250)	(152)
Property plant and equipment	166	-
Intangible assets	233	85
Net assets	(919)	(43)
Minority interest	-	12
	(919)	(31)
Goodwill on acquisition	919	81
Consideration paid	-	50
Overdraft / bank balances acquired	68	(24)
Net cash impact of acquisition	68	26

[Notes to the Financial Statements

For the year ended 30 June 2002

14 INVESTMENTS IN ASSOCIATES

The Parent's investment in associates comprises:

Name of entity	Principal activities	As at 30 June	
		GROUP'S INTEREST HELD	
		2002	2001
		%	%
Damping Systems Limited	Earthquake damping technologies	33.00	33.00
MPT - Matcor Pte Limited	Plant life cycle services in ASEAN region	50.00	50.00
GraceLinc Limited	Intellectual property commercialisation	50.00	50.00

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

All entities have a balance date of 30 June.

At balance date Industrial Research Limited had a future investment capital commitment in respect of GraceLinc Limited of \$350,000 (2001: Nil).

Results of associates

	GROUP	
	2002	2001
	\$000	\$000
Share of deficits	(143)	(151)
Tax	-	-
Share of retained deficits	(143)	(151)

Interests in associates

PARENT			GROUP	
2001	2002		2002	2001
\$000	\$000		\$000	\$000
436	125	Shares at cost	125	436
670	739	Unsecured advances	721	670
571	-	Convertible note advances	-	571
-	-	Share of post acquisition deficits	-	(263)
1,677	864	Total interest in associates	846	1,414

[Notes to the Financial Statements

For the year ended 30 June 2002

15 JOINT VENTURES

The Parent has 50% participating interests in the following entities:

Name of entity	Principal activities	Joint venture partner
Superlink joint venture	High temperature superconducting intellectual property management	Meridian Energy Limited

Financial performance

The Group's operating revenues and share of expenses, proportionately consolidated were:

	GROUP	
	2002	2001
	\$000	\$000
Revenue	142	50
Expenses	(142)	(50)
Net contribution to Group operating surplus	-	-

Financial position

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

	GROUP	
	2002	2001
	\$000	\$000
Current assets		
Cash at bank	18	44
Trade receivables	78	21
Share of total assets included in Group	96	65
Current liabilities		
Trade creditors	(96)	(64)
Employee entitlements	-	-
Share of total liabilities included in Group	(96)	(64)
Net assets employed in the joint ventures	-	1

All joint venture entities have the same balance date as the Parent company.

16 SEGMENT INFORMATION

The Group operates in New Zealand, Australia and Singapore providing scientific research and other services to Government and commercial clients. More than 90% of the Group's total operating revenues, operating earnings and identifiable assets were generated by operations in New Zealand.

[Notes to the Financial Statements

For the year ended 30 June 2002

17 RELATED PARTY TRANSACTIONS**Group**

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

There were no significant related party transactions during the year other than those disclosed in these financial statements.

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

Parent

Industrial Research Limited is the parent company of a number of subsidiary companies - greater than 50% owned.

Transactions during the year were:

	PARENT	
	2002 Actual \$000	2001 Last Year \$000
Sales of services and general recoveries	371	905
Purchase of services	294	1,819
Purchase of capital equipment	-	-
	294	1,819

Other related parties

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

The details on the loans and their balances at balance date are:

	PARENT	
	2002 Actual \$000	2001 Last Year \$000
Materials Performance Technologies Pty Limited	232	120
MPT - Matcor Pte limited	139	332
Anztek Pty Limited	54	54
SRV Limited	41	38
GraceLinc Limited	600	300
Kruse Commentary Systems Limited	853	571

Apart from the write down of advances to MPT - Matcor Pte Limited to reflect net asset backing at balance date no amounts owed by related parties have been written off or forgiven during the year.

The loans to Materials Performance Technologies Pty Limited and MPT - Matcor Pte Limited are interest free. The loan to Anztek Pty Limited was also interest free during the year (2001: \$3,800 received).

The loan to Kruse Commentary Systems Limited is interest bearing with \$39,644 received during the year (2001: Nil).

All loans are repayable on demand.

Trade receivables (refer note 7) included \$24,932 of amounts owed by associate companies of the Group.

18 OWNERSHIP

Industrial Research Limited is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is wholly owned by the Government of New Zealand.

The liabilities of Industrial Research Limited are not guaranteed in any way by the Government of New Zealand. The borrowing activities of the company have been conducted in accordance with this policy.

[Notes to the Financial Statements

For the year ended 30 June 2002

19 COMMITMENTS

As at 30 June PARENT			As at 30 June GROUP	
2001 Last Year \$000	2002 Actual \$000		2002 Actual \$000	2001 Last Year \$000
(a) Capital commitments				
1,510	2,593	Amounts committed to capital expenditure	2,593	1,510
1,510	2,593		2,593	1,510
(b) Operating leases				
Non - cancellable operating lease commitments				
661	619	Within one year	645	707
600	542	One to two years	542	626
1,119	608	Two to five years	608	1,119
-	-	Beyond five years	-	-
2,380	1,769		1,795	2,452

20 CONTINGENT LIABILITIES

No contingent liabilities are known to exist at this time.

21 SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no other significant events post balance date.

[Earnings Trends - Unaudited

For the five years ended 30 June 2002

	2002	2001	GROUP		1998
	Actual	Actual	2000	1999	Actual
	\$000	\$000	Actual	Actual	Actual
			\$000	\$000	\$000
OPERATING REVENUE					
Commercial - Domestic	9,336	8,482	9,454	10,456	10,402
Commercial - Overseas	15,298	14,616	8,566	3,665	2,615
Royalties - Domestic & Overseas	639	572	360	692	267
Foundation for Research, Science and Technology	29,153	28,561	28,490	27,405	27,531
Ministry of Research, Science and Technology	4,228	4,051	4,051	3,692	3,692
Total operating revenue	58,654	56,282	50,921	45,910	44,507
OPERATING EXPENSES					
Personnel costs	27,602	25,857	23,554	21,513	21,203
Depreciation and related expenses	4,715	4,381	4,123	3,646	3,517
Scientific consumables, services and contracts	7,449	7,423	6,777	5,568	5,737
Non - scientific consumables, services and contracts	1,411	1,223	1,028	918	785
Scientific and technical literature and information costs	1,009	973	836	847	704
Domestic and offshore travel and conference costs	2,835	3,167	2,416	2,268	1,944
Network and communication costs	1,045	1,193	1,205	1,574	1,675
Property and general maintenance costs	2,152	2,183	1,661	1,521	1,527
Property and utility expenses	2,124	1,877	1,809	1,664	1,854
Intellectual property protection and general legal costs	910	613	395	589	454
Rental and operating lease costs	789	804	608	576	547
Costs of offering credit	22	9	27	13	56
Directors' fees and expenses	207	187	166	161	180
Audit fees and expenses	95	90	79	54	50
Health and safety compliance costs	167	154	216	169	43
Foreign exchange (gains) / losses	181	(379)	(194)	20	(133)
Other operating costs	2,743	3,264	2,607	2,209	1,587
Total operating costs	55,456	53,019	47,313	43,310	41,730
Operating earnings	3,198	3,263	3,608	2,600	2,777
Reorganisational expenses	(765)	-	-	-	(486)
Impact of accounting policy changes	-	-	-	(666)	-
Net surplus arising on sale of investments	-	-	907	69	-
Earnings before interest & taxation (EBIT)	2,433	3,263	4,515	2,003	2,291
Net interest expense	698	332	390	138	103
Surplus before taxation	1,735	2,931	4,125	1,865	2,188
Taxation expense	719	1,080	1,041	573	725
Surplus after taxation	1,016	1,851	3,084	1,292	1,463
Share of retained surpluses / (deficits) of associate company after tax	(143)	(151)	(26)	-	-
Minority interests after tax	49	(18)	71	-	-
NET EARNINGS	922	1,682	3,129	1,292	1,463

[Statutory Information

For the year ended 30 June 2002

DIRECTORS' INTERESTS

Directors' Remuneration

Pursuant to section 211 (1) of the Companies Act 1993, Directors' remuneration for the year ended 30 June 2002 totalled \$163,500, paid as follows :

R. A. Armstrong	\$40,000
T. W. Newton	\$33,000
D. A. Chapman	\$16,000
R. F. Nottage	\$16,000
E. M. Coutts	\$26,500
J. L. Walley	\$16,000
A.M. Andrew	\$16,000

No directors' fees were paid by subsidiary companies.

The departure of the Chief Executive Officer in late December 2001 saw the Chairman Dr Ross Armstrong assume the role of Acting CEO. Dr Armstrong held this role from 27 December 2001 until 26 March 2002 and was paid \$45,000 over that time. The Deputy Chairman Troy Newton assumed the Acting CEO role from 27 March 2002 to 26 May 2002 and was paid \$22,109 over that time.

DISCLOSURES OF INTERESTS BY DIRECTORS

(a) General Disclosures

The following are particulars of general disclosures of interest given during the year by the Directors of the company pursuant to section 140 (2) of the Companies Act 1993 :

R. A. Armstrong

Shareholder Director	Far East Export Co Limited
Chairman	New Zealand Post Limited
Chairman	Television New Zealand Limited

J. L. Walley

Chief Executive Director	Canterbury Manufacturers' Assn.
Director	Canterprise Limited
Director	Stabi Marine Limited
Director	Mancan Foundation Limited
Member	Technology NZ Advisory Board

D. A. Chapman

Trustee	Chapman Charitable Trust
Trustee	Science Alive and Roadshow Trust
Director	Chapman Management Services Ltd
Director	Adrenalyn Ventures limited
Director	Pay Global Limited
Director	Brycton Limited
Director	Vega Industries Limited
Director	No 8 Ventures 10 Limited
Director	Enatel Limited
Director	Spark Ventures Limited
Director	Stratatec Limited

T. W. Newton

Senior Executive	KPMG Corporate Finance
------------------	------------------------

E. M. Coutts

Chairman	Meritec Limited (resigned August 2002)
Member	Pharmaceutical Management Agency
Director	Skellmax Industries Limited
Deputy Chairman	Public Trust
Commissioner	Hillary Commission
Director	Sport and Recreation New Zealand
Shareholder Director	Rannoch Estate Limited

A. M. Andrew

Senior Executive Fonterra Co-Operative Group Limited

R. F. Nottage

Chairman Researched Medicines Industry Assn
Director Shuttleworth Axial Motor Company Ltd

(b) Specific Disclosures

There were no specific disclosure notices given pursuant to Section 140 (1) of the Companies Act 1993.

(c) Share Dealings

During the year no directors acquired or disposed of equity securities in the parent company.

(d) Use of Company Information

Pursuant to section 145 of the Companies Act 1993 the Board recorded no notices from Directors requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

(e) Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has given indemnities to, and has effected insurance for, Directors and executives of the company and its related companies which, except for specific matters which are expressly excluded, indemnify and insure Directors and executives against monetary losses as a result of actions undertaken by them in the course of their duties.

Specifically excluded are certain matters, such as the incurring of penalties and fines, which may be imposed for breaches of law.

EMPLOYEE REMUNERATION

Grouped below, in accordance with section 211 (1) (g) of the Companies Act 1993, are the number of employees or former employees (of which one is offshore) of the company and its subsidiaries who received remuneration and other benefits, including termination payments in their capacity as employees, totalling \$100,000 or more during the year.

Remuneration has been calculated to include the cost to the company of benefits in addition to cash and any related taxation payments required in the country where the employee is based.

	2002	2001
Range \$280,000 - \$289,999	2	-
Range \$270,000 - \$279,999	1	-
Range \$240,000 - \$249,999	1	-
Range \$230,000 - \$239,999	-	1*
Range \$220,000 - \$229,999	1	-
Range \$200,000 - \$209,999*	2	-
Range \$180,000 - \$189,999	-	1
Range \$170,000 - \$179,999	3	-
Range \$160,000 - \$169,999	1	3
Range \$150,000 - \$159,999	1	4
Range \$140,000 - \$149,999	2	1
Range \$120,000 - \$129,999	1	1
Range \$110,000 - \$119,999	2	2
Range \$100,000 - \$109,999	8	9
	25	22

* Denotes Chief Executive Officer's band

Remuneration policies are subject to the approval of the Remuneration subcommittee of the Board of Directors.

The committee also reviews remuneration applying to those executives who report directly to the Chief Executive Officer.

Corporate Governance

For the year ended 30 June 2002

CHARTER

Industrial Research Limited was incorporated in 1992 under the New Zealand Companies Act 1955 and was reregistered under the Companies Act 1993 on 16 July 1996, at which date a constitution was adopted in place of the existing memorandum and articles of association.

As a Crown Research Institute (CRI) the company's principal activity is to conduct scientific research in accordance with the purpose and principles for CRIs as set out in sections 4 and 5 of the Crown Research Institutes Act 1992.

MANAGEMENT OF THE COMPANY

The business and affairs of the company are managed by, or under the direction or supervision of, the Board of Directors. The Board exercises all powers of the company not required to be exercised by the shareholders.

BOARD OF DIRECTORS

The Board establishment is seven non-executive Directors who normally meet eight times per year and as required for strategic planning purposes. The Board is accountable to the shareholding Ministers in the manner set out in Part III of the Crown Research Institutes Act 1992.

The Board establishes strategic policy, guides and monitors the business and affairs of the company on behalf of shareholders and is committed to a high standard of corporate governance. Responsibility for the operation and administration of the company is delegated to the Chief Executive Officer, who is accountable to the Board.

In particular, the Board places emphasis on such policy areas as risk management assessment, health and safety staff training and development, environment, ethical conduct and regulatory compliance.

DIRECTORS

Directors are appointed by the shareholding Ministers in accordance with section 7 of the Crown Research Institutes Act 1992. The normal term of appointment is three years with reappointment at the discretion of the shareholding Ministers.

BOARD SUB COMMITTEES

The Board has established four sub committees, the members of which are all non-executive Directors.

(a) Audit and Statutory Compliance Sub Committee

Troy Newton (Chairman), Liz Coutts, John Walley

The function of the audit and compliance sub committee is to assist the Board in carrying out its responsibilities regarding management's accounting practices, policies and controls relative to the company's financial results, to review and make appropriate enquiry into the audit of the company's accounts by the external auditors, and to ensure compliance with statutory legislation.

This committee normally meets at least three times per year.

(b) Capital Expenditure Sub Committee

Dennis Chapman, Alison Andrew

The function of the capital expenditure sub committee is to assist the Board in carrying out its responsibilities regarding the approval of capital expenditure applications in excess of the Chief Executive Officer's delegated approval level. The committee focuses particularly on the quality of the scientific/technical rationale that supports each application. The committee meets as often as is necessary during the year.

(c) Investments and Acquisitions Sub Committee

Liz Coutts (Chairman), Troy Newton

This committee has the primary role to assist the Board and management of Industrial Research Limited in its decision making processes with respect to

- Acquisitions of new activities or business entities;
- Divestment of existing activities or business entities with a value > \$200,000;
- General investment proposals including joint venture opportunities;
- Investment in existing business units greater than \$1,000,000 where those investments by their nature sit outside the normal capital expenditure processes;
- Monitoring the investment portfolio of the parent company - Industrial Research Limited; the aim being to improve the efficiency of the overall process at Board level.

The committee normally meets at least twice per year.

(d) Remuneration Sub Committee

Ross Armstrong (Chairman), Troy Newton, Richard Nottage

This committee assists the Board in determining compensation adjustments for the Chief Executive Officer. It also reviews remuneration payable to those executives who report directly to the Chief Executive Officer.

This committee normally meets two times per year.

SUBSIDIARY AND ASSOCIATE COMPANY GOVERNANCE

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

Directors who ceased to hold office during the year have an (R) after their name.

Subsidiaries

- **Materials Performance Technologies Pty Limited**
Geoffrey Todd, John Broadway, Geoffrey Page (R), Peter Wilson (R)
- **Superlink Developments Limited**
Ross Armstrong, Nigel Kirkpatrick, Geoffrey Page (R)
- **Anztek Pty Limited**
Geoffrey Todd, John Harrison
- **Measurement Standards Laboratory of NZ Limited**
Nigel Kirkpatrick, Geoffrey Page (R)
- **Industrial Research Pty Limited**
Nigel Kirkpatrick, John Broadway, James McWha (R)

[Corporate Governance

For the year ended 30 June 2002

Joint Ventures

- **GraceLinc Limited**
Liz Coutts, Nigel Kirkpatrick, Geoffrey Page (R)
- **MPT - Matcor Pte Limited**
Geoffrey Todd, John Harrison
- **Superlink Board of Control**
Ross Armstrong, Nigel Kirkpatrick, Geoffrey Page (R)

Associates

- **Damping Systems Limited**
Nigel Kirkpatrick, Geoffrey Page (R)
- **SRV Limited**
Troy Newton
- **Kruse Commentary Systems Limited**
Liz Coutts, Sunil Vather

GOVERNANCE REVIEW

The Board of Directors undertakes an annual review of the effectiveness of its governance structures as well as individual Board member performance.

[Management Statement of Responsibility

For the year ended 30 June 2002

The management of Industrial Research Limited has the responsibility for:

- (a) The preparation of the annual financial statements and the judgements 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 2002 fairly reflect the financial position and operations of Industrial Research Limited.

This statement is issued in accordance with section 42 of the Public Finance Act 1989.

Dr R A Armstrong
Chairman

N R Kirkpatrick
Chief Executive Officer

J P Harrison
Chief Financial Officer