

# FINANCIAL STATEMENTS

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## REPORT OF THE AUDITOR-GENERAL

To the readers of the financial statements of Industrial Research Limited and Group for the year ended 30 June 2003



We have audited the financial statements on pages 34 to 55. 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 2003. This information is stated in accordance with the accounting policies set out on pages 39 to 42.

### 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 2003 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 assurance services in the area of information technology systems selection and advice on financial reporting. 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 34 to 55:
  - 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 2003; and
    - the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 9 September 2003 and our unqualified opinion is expressed as at that date.

**A R Britton**

On behalf of the Auditor-General  
Auckland, New Zealand

**PricewaterhouseCoopers**

## DIRECTORS' REPORT

For the year ended 30 June 2003

The Board of Directors is pleased to present the Annual Report of Industrial Research Limited and its subsidiaries, incorporating the financial statement and auditors' report for the year ended 30 June 2003.

### PRINCIPAL ACTIVITIES OF THE GROUP

The principal activities of the Group during the year were the provision of research, science and technology services to both the domestic and international markets, and the manufacture of biopharmaceuticals for use in clinical trials.

## BOARD OF DIRECTORS

For the year ended 30 June 2003

### INTERESTS REGISTER

Each company in the Group is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests registers for Industrial Research Limited and its subsidiaries are available for inspection at its registered office.

Details of all matters that have been entered in the interests register by individual directors are outlined in the director profiles following. Where a director has declared an interest in a particular entity, as a shareholder and/or director, the declaration serves as notice that the director may benefit from any transactions between the Parent or Group and the identified entities.

### 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.

### DIRECTOR PROFILES

#### E.M. Coutts (Chairman)

##### GENERAL DISCLOSURES OF INTEREST

Member	Pharmaceutical Management Agency (resigned 30 June 2003)
Director	Skellmax Industries Limited
Deputy Chairman	Public Trust
Member	Sport and Recreation New Zealand
Director, Shareholder	Rannoch Estate Limited
Director	EBOS Group Limited (appointed 2 July 2003)

#### J. L. Walley

##### GENERAL DISCLOSURES OF INTEREST

Chief Executive	Canterbury Manufacturers' Association
Chairman	Canterprise Limited
Director	Stabi Marine Limited
Director	Mancan Foundation Limited

**DIRECTORS' REPORT**

For the year ended 30 June 2003

**D.A. Chapman**

## GENERAL DISCLOSURES OF INTEREST

Trustee	Chapman Charitable Trust
Trustee	Science Alive and Roadshow Trust
Director	Chapman Management Services Limited
Director	Pay Global Limited
Director	Brylton Limited
Director	Vega Industries Limited
Director	No. 8 Ventures 10 Limited
Director	Enatel Limited
Director	Spark Ventures Limited
Director	Stratatec Limited
Member	No. 8 Ventures advisory committee

**R.F. Nottage**

## GENERAL DISCLOSURES OF INTEREST

Chairman	Researched Medicines Industry Association
Director	Shuttleworth Axial Motor Company Limited
Director	NZ Institute of Economic Research

**A.M. Andrew**

## GENERAL DISCLOSURES OF INTEREST

Senior Executive	Fonterra Co-operative Group
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**G.M. Milner**

## GENERAL DISCLOSURES OF INTEREST

Principal	GMA Consulting
Executive Manager	East Coast Rugby Football Union Inc
Trustee	Eastland Energy Community Trust

**C. Stobo**

## GENERAL DISCLOSURES OF INTEREST

Director	BT Funds Management
Director	A H Stobo Ltd



## DIRECTORS REMUNERATION

Directors of Industrial Research Limited	2003	2002
	Directors' Fees	Directors' Fees
E. M. Coutts (Chairman)	50,355	26,500
J. L. Walley	20,667	16,000
A. M. Andrew	16,000	16,000
R. F. Nottage	16,000	16,000
D. A. Chapman	16,000	16,000
R. A. Armstrong (resigned October 2002)	14,561	40,000
G. M. Milner	20,000	-
C. Stobo	1,600	-
T. W. Newton (resigned September 2002)	8,750	33,000
	<b>163,933</b>	<b>163,500</b>

No directors' fees were paid by subsidiary companies. Following the departure of the Chairman, Dr Ross Armstrong, in late October 2002, Director, Mrs Liz Coutts was appointed Acting Chairman and then appointed Chairman in April 2003. Mr Troy Newton retired from the Board in September 2002 and was replaced by Mr Geoff Milner. Mr Craig Stobo was appointed in May 2003.

## EMPLOYEE REMUNERATION

The number of employees within the Group receiving remuneration and benefits above \$100,000 are indicated in the following table. \* denotes the Chief Executive Officer's band. Remuneration policies are subject to the approval of the remuneration sub-committee of the Board of Directors. The committee also reviews remuneration applying to those executives who report directly to the Chief Executive Officer.

	2003		2002	
	Parent	Subsidiaries	Parent	Subsidiaries
\$310,000 - \$319,999	1	-	-	-
\$280,000 - \$289,999	-	-	2	-
\$270,000 - \$279,999	-	-	1	-
\$240,000 - \$249,999	1*	-	1	-
\$220,000 - \$229,999	-	-	1	-
\$200,000 - \$209,999	2	-	2	-
\$190,000 - \$199,999	1	-	-	-
\$180,000 - \$189,999	2	-	-	-
\$170,000 - \$179,999	1	-	3	-
\$160,000 - \$169,999	-	-	1	-
\$150,000 - \$159,999	-	-	1	-
\$140,000 - \$149,999	2	-	2	-
\$130,000 - \$139,999	1	-	-	-
\$120,000 - \$129,999	2	-	1	-
\$110,000 - \$119,999	4	-	2	-
\$100,000 - \$109,999	8	-	8	-

## DIRECTORS' REPORT

For the year ended 30 June 2003

### CHARTER

Industrial Research Limited was incorporated in 1992 under the New Zealand Companies Act 1955 and was registered 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 ten 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 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, treasury, 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, Finance and Risk Sub Committee

John Walley (Chairman), Liz Coutts, Geoff Milner

The function of the audit, finance and risk sub committee is to assist the Board in carrying out its responsibilities regarding management's accounting practices, risk management, 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 four times per year.

#### (b) Investments Sub Committee

Liz Coutts (Chairman), Alison Andrew, Craig Stobo

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

- Investments in new activities, business entities or joint ventures;
- Divestment of existing activities or business entities;
- Capital expenditure evaluations;
- Monitoring the investment portfolio of the parent to improve the efficiency of the overall process at Board level.

The committee normally meets at least three times per year.

#### (c) Science Advisory Sub Committee

John Walley (Chairman), Denis Chapman

The primary objective of the Committee is to assist the Board of Directors in fulfilling its responsibilities relating to science development processes of the company (including any subsidiaries). In particular:

- Develop science strategy;
- Examine the project plans presented by Project Teams at the scheduled Science Review Meetings;
- Report to the Board regarding confidence that the Science Review Meetings are conducted in such a way to indicate that:
  1. the science will be world class;
  2. a critical mass can be provided to the project;
  3. the medium to long term commercial outcomes can be anticipated;
  4. project abandonment criteria are established and reviewed;
  5. best available advice has been sought on each project.



**(d) Remuneration Sub Committee**

Liz Coutts (Chairman), Alison Andrew, Richard Nottage

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

This committee normally meets at least twice 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****MPT Pty Ltd**

Geoffrey Todd, John Broadway (Australian resident)

**Superlink Developments Ltd**

Liz Coutts, Ross Armstrong 'R', Nigel Kirkpatrick

**Anztek Pty Limited**

John Harrison, Jill Newson, Geoffrey Todd 'R'

**Measurement Standards Laboratory of NZ Limited**

Nigel Kirkpatrick

**Industrial Research Pty Limited**

Nigel Kirkpatrick, John Broadway (Australian resident)

**SRV Limited**

Troy Newton 'R', Nigel Kirkpatrick

**Bio-Sol Limited**

Sunil Vather, Nigel Kirkpatrick

**JOINT VENTURES****GraceLinc Limited**

Liz Coutts, Nigel Kirkpatrick

**MPT-Matcor Pte Ltd**

Geoffrey Todd, John Harrison

**ASSOCIATES****Damping Systems Limited**

Nigel Kirkpatrick

**DIRECTORS' REPORT**

For the year ended 30 June 2003

**AUDITORS**

The principal auditor for the Group is Andrew Britton of PricewaterhouseCoopers on behalf of the Office of the Auditor-General. The remuneration for services provided by PricewaterhouseCoopers for the current financial year was:

	2003		2002	
	Audit \$'000	Other \$'000	Audit \$'000	Other \$'000
PricewaterhouseCoopers	72	116	53	24
Audit fees paid to other auditors	18	-	18	-
<b>Total</b>	<b>\$90</b>	<b>\$116</b>	<b>\$71</b>	<b>\$24</b>

Anztek Pty Limited and MPT Pty Limited are audited by a firm other than PricewaterhouseCoopers

**DONATIONS**

During the current financial year donations totaling \$6,269 were made by companies in the Group (2002: \$5,043) of which \$6,269 was made by the Parent (2002: \$5,043).

**CHANGES IN ACCOUNTING POLICIES**

During the year the Group and Parent changed the following accounting policies:

**Capitalisation of financing costs**

Under the new policy, financing costs that are directly attributable to the acquisition or construction of property, plant and equipment are capitalised. Formerly, all financing costs were expensed as incurred.

**Share of surpluses/(deficits) of associates**

Under the new policy the Group's share of the net surpluses/(deficits) of associates is recognised as part of operating surplus before income tax. Previously, the Group recognised dividends received from associates in operating surplus before tax and recognised the Group's share of retained surpluses of associates in net surplus.

**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 2003

The management of Industrial Research Limited has the responsibility for:

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

In the opinion of the management the annual financial statements for the financial year ended 30 June 2003 fairly reflect the financial position and operations of Industrial Research Limited.

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

The annual report and the financial statements presented on pages 34 to 55 are signed for and on behalf of the Board and were authorised for issue on the date set out below.



**E M Coutts**

Chairman

Date 9 September 2003



**N Kirkpatrick**

Chief Executive Officer



**S Everton**

Chief Financial Officer

## STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2003

	Notes	Group		Parent		
		2003 Actual \$'000	2003 Budget \$'000	2002 Actual \$'000	2003 Actual \$'000	2002 Actual \$'000
Operating revenue	2	62,483	65,078	58,587	61,324	57,782
Operating expenses	3	(62,552)	(63,268)	(56,995)	(61,332)	(56,084)
Operating surplus/(deficit) before income tax		(69)	1,810	1,592	(8)	1,698
Income tax expense	10	(477)	(608)	(719)	(498)	(719)
Operating surplus/(deficit) for the year		(546)	1,202	873	(506)	979
Net surplus/(deficit) attributable to minority interest	7	(32)	-	49	-	-
<b>Net surplus/(deficit) attributable to parent shareholders</b>		<b>(578)</b>	<b>1,202</b>	<b>922</b>	<b>(506)</b>	<b>979</b>

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



## STATEMENTS OF MOVEMENTS IN EQUITY

For the year ended 30 June 2003

	Notes	Group		Parent		
		2003 Actual \$'000	2003 Budget \$'000	2002 Actual \$'000	2003 Actual \$'000	2002 Actual \$'000
Net surplus/(deficit) for the year, comprising						
Parent shareholders' interest	6	(578)	1,202	922	(506)	979
Minority interest	7	32	-	(49)	-	-
		(546)	1,202	873	(506)	979
<b>Other recognised revenues and expenses</b>						
Foreign currency translation reserve	5	4	-	65	-	-
Total recognised revenues and expenses		(542)	1,202	938	(506)	979
<b>Equity at the beginning of year, comprising</b>						
Parent shareholders' interest		28,307	28,395	27,320	28,507	27,528
Minority interest	7	(24)	-	30	-	-
		28,283	28,395	27,350	28,507	27,528
<b>Equity at end of year, comprising</b>						
Parent shareholders' interest		27,733	29,597	28,307	28,001	28,507
Minority interest	7	8	-	(24)	-	-
		27,741	29,597	28,283	28,001	28,507

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

## STATEMENTS OF FINANCIAL POSITION

For the year ended 30 June 2003

	Notes	Group			Parent	
		2003 Actual \$'000	2003 Budget \$'000	2002 Actual \$'000	2003 Actual \$'000	2002 Actual \$'000
<b>EQUITY</b>						
Share capital	4	16,250	16,250	16,250	16,250	16,250
Reserves	5	62	32	58	-	-
Retained earnings	6	11,421	13,315	11,999	11,751	12,257
<b>Shareholders' equity</b>		<b>27,733</b>	<b>29,597</b>	<b>28,307</b>	<b>28,001</b>	<b>28,507</b>
Minority interests	7	8	-	(24)	-	-
<b>Total equity</b>		<b>27,741</b>	<b>29,597</b>	<b>28,283</b>	<b>28,001</b>	<b>28,507</b>
<b>LIABILITIES</b>						
<b>NON-CURRENT LIABILITIES</b>						
Payables and accruals	11	1,108	1,204	1,104	1,108	1,104
Borrowings	8	24,104	21,692	15,584	24,104	15,584
<b>Total non-current liabilities</b>		<b>25,212</b>	<b>22,896</b>	<b>16,688</b>	<b>25,212</b>	<b>16,688</b>
<b>CURRENT LIABILITIES</b>						
Payables and accruals	11	9,488	10,266	12,269	9,266	11,445
Current portion of long term liabilities	8	192	-	188	192	188
<b>Total current liabilities</b>		<b>9,680</b>	<b>10,266</b>	<b>12,457</b>	<b>9,458</b>	<b>11,633</b>
<b>Total liabilities</b>		<b>34,892</b>	<b>33,162</b>	<b>29,145</b>	<b>34,670</b>	<b>28,321</b>
<b>Total equity and liabilities</b>		<b>62,633</b>	<b>62,759</b>	<b>57,428</b>	<b>62,671</b>	<b>56,828</b>
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Investments in subsidiaries	14	-	-	-	447	1,547
Investments in associates	15	1,070	2,729	846	1,148	864
Property, plant and equipment	12	52,391	51,304	46,843	52,212	46,608
Intangible assets	17	-	-	1,491	-	-
Deferred tax	9	585	1,113	825	585	843
<b>Total non-current assets</b>		<b>54,046</b>	<b>55,146</b>	<b>50,005</b>	<b>54,392</b>	<b>49,862</b>
<b>CURRENT ASSETS</b>						
Cash and bank balances		122	145	329	55	238
Accounts receivable	19	6,902	6,787	5,640	6,703	5,396
Inventories	18	828	679	1,154	828	1,032
Taxation receivable		735	2	300	693	300
<b>Total current assets</b>		<b>8,587</b>	<b>7,613</b>	<b>7,423</b>	<b>8,279</b>	<b>6,966</b>
<b>Total assets</b>		<b>62,633</b>	<b>62,759</b>	<b>57,428</b>	<b>62,671</b>	<b>56,828</b>



**Chairman**

9 September 2003



**Director**

9 September 2003

The Board of Directors of Industrial Research Limited authorised these financial statements for issue on 9 September 2003.



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

## STATEMENTS OF CASH FLOWS

For the year ended 30 June 2003

	Group		2002 Actual \$'000	Parent	
	2003 Actual \$'000	2003 Budget \$'000		2003 Actual \$'000	2002 Actual \$'000
<b>OPERATING ACTIVITIES</b>					
<b>Cash was provided from</b>					
Receipts from customers	28,411	29,546	29,002	27,054	28,052
Receipts from Crown	33,426	33,394	33,392	33,425	33,392
Interest received	39	60	76	38	68
	<b>61,876</b>	<b>63,000</b>	<b>62,470</b>	<b>60,517</b>	<b>61,512</b>
<b>Cash was applied to</b>					
Payments to suppliers	(28,522)	(26,752)	(23,798)	(27,136)	(22,828)
Payments to employees	(29,473)	(29,903)	(28,202)	(29,222)	(27,734)
Inter-company cash flows (net)	-	-	-	187	(123)
Interest paid	(1,033)	(1,365)	(713)	(1,006)	(707)
Net GST paid	105	174	(110)	81	(110)
Income tax paid	(520)	(575)	(885)	(633)	(894)
	<b>(59,443)</b>	<b>(58,421)</b>	<b>(53,708)</b>	<b>(57,729)</b>	<b>(52,396)</b>
<b>Net cash inflows from operating activities</b>	<b>2,433</b>	<b>4,579</b>	<b>8,762</b>	<b>2,788</b>	<b>9,116</b>
<b>INVESTMENT ACTIVITIES</b>					
<b>Cash was provided from</b>					
Proceeds from sale of property, plant & equipment	52	-	12	52	12
Advances and loans repaid	-	-	-	853	-
	<b>52</b>	<b>-</b>	<b>12</b>	<b>905</b>	<b>12</b>
<b>Cash was applied to</b>					
Purchase of property plant & equipment	(10,330)	(10,189)	(14,291)	(10,177)	(14,239)
Capitalised interest paid	(385)	-	-	(385)	-
Advances and loans to subsidiaries	-	-	-	(165)	(112)
Advances and loans to associates	(350)	(550)	(708)	(350)	(758)
Purchase of investments	-	-	-	(1,171)	-
Purchase of subsidiary	-	-	(94)	-	-
	<b>(11,065)</b>	<b>(10,739)</b>	<b>(15,093)</b>	<b>(12,248)</b>	<b>(15,109)</b>
<b>Net cash inflows from investment activities</b>	<b>(11,013)</b>	<b>(10,739)</b>	<b>(15,081)</b>	<b>(11,343)</b>	<b>(15,097)</b>
<b>FINANCING ACTIVITIES</b>					
<b>Cash was provided from</b>					
Proceeds from borrowings	8,500	6,100	6,700	8,500	6,700
	<b>8,500</b>	<b>6,100</b>	<b>6,700</b>	<b>8,500</b>	<b>6,700</b>
<b>Cash was applied to</b>					
Finance lease principal payments	(127)	(80)	(39)	(127)	(39)
	<b>(127)</b>	<b>(80)</b>	<b>(39)</b>	<b>(127)</b>	<b>(39)</b>
<b>Net cash inflows from financing activities</b>	<b>8,373</b>	<b>6,020</b>	<b>6,661</b>	<b>8,373</b>	<b>6,661</b>
<b>Net increase in cash held</b>	<b>(207)</b>	<b>(140)</b>	<b>342</b>	<b>(182)</b>	<b>680</b>
Foreign currency translation movement	-	-	(27)	-	-
Cash from amalgamation	-	-	-	(1)	-
Cash at beginning of year	329	285	14	238	(442)
<b>Cash at end of year</b>	<b>122</b>	<b>145</b>	<b>329</b>	<b>55</b>	<b>238</b>

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

## STATEMENTS OF CASH FLOWS

For the year ended 30 June 2003

	Group		Parent		
	2003 Actual \$'000	2003 Budget \$'000	2002 Actual \$'000	2003 Actual \$'000	2002 Actual \$'000
<b>Reconciliation with operating surplus</b>					
Reported surplus after tax	(578)	1,202	922	(506)	979
Associated entity deficits	59	-	143	-	-
Minority interest share of surpluses	32	-	(49)	-	-
	(487)	1,202	1,016	(506)	979
<b>Items not involving cash flows</b>					
Depreciation expense	5,285	5,543	4,510	5,140	4,490
Development amortisation	406	-	203	-	203
Movement in deferred tax	240	(270)	137	258	139
Subsidiary/associate company investment writedown	67	-	-	1,650	317
Provision for employee entitlements	(137)	84	(567)	(128)	(554)
(Surplus)/deficit on sale of fixed assets	20	-	2	20	(4)
Intangibles written off	1,026	-	-	-	-
Movement in foreign exchange	4	-	(194)	-	-
	6,911	5,357	4,091	6,940	4,591
<b>Impact of changes in working capital items</b>					
Accounts receivable	(1,260)	(1,236)	1,878	(1,442)	1,962
Inventory	326	373	(499)	204	(419)
Trade creditors	(2,623)	(1,420)	2,581	(2,141)	2,343
Tax provision	(434)	303	(305)	(393)	(314)
Inter company	-	-	-	126	(26)
	(3,991)	(1,980)	3,655	(3,646)	3,546
<b>Net cash flow from operating activities</b>	<b>2,433</b>	<b>4,579</b>	<b>8,762</b>	<b>2,788</b>	<b>9,116</b>

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



## STATEMENTS OF ACCOUNTING POLICIES

For the year ended 30 June 2003

### 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, associates and joint ventures.

### STATUTORY BASE

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

### MEASUREMENT BASE

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

### ACCOUNTING POLICIES

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

### GROUP FINANCIAL STATEMENTS

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

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

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

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

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

### REVENUE

#### Goods and services

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

#### Research contracts

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

#### Grants

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

#### Investment income

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

Interest and rental income are accounted for as earned.

### INCOME TAX

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

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

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

## STATEMENTS OF ACCOUNTING POLICIES

For the year ended 30 June 2003

### GOODS AND SERVICES TAX (GST)

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 short term forward currency commitments. Where short term forward currency contracts have been taken out, the transaction is translated at the rate contained in the contract.

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

#### Foreign operations

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

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

### PROPERTY, PLANT AND EQUIPMENT

#### Initial recording

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

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

In previous years, all financing costs were expensed as incurred.

#### DEPRECIATION

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

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

### LEASED ASSETS

#### AS LESSEE

##### Finance leases

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

##### Operating leases

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



## STATEMENTS OF ACCOUNTING POLICIES

For the year ended 30 June 2003

### INVESTMENTS

Investments in subsidiaries and associates are stated at cost 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 of the joint venture. The liabilities recognised include its share of those for which it is jointly liable.

### INTANGIBLE ASSETS

#### Patents, trade marks and licences

Patents, trademarks and licences are amortised over their anticipated useful lives which range between three and ten years.

#### 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 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 twenty years.

### INVENTORIES

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

### CONTRACT WORK-IN-PROGRESS

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

### ACCOUNTS RECEIVABLE

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

### IMPAIRMENT

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

### BUDGET FIGURES

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

### EMPLOYEE ENTITLEMENTS

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

#### Long term employee entitlements

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

## STATEMENTS OF ACCOUNTING POLICIES

For the year ended 30 June 2003

### FINANCIAL INSTRUMENTS

#### Recognised

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

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

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

#### Unrecognised

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

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

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

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

### CHANGES IN ACCOUNTING POLICIES

#### Capitalisation of financing costs

Under the new policy, financing costs that are directly attributable to the acquisition or construction of property, plant and equipment are capitalised. Formerly, all financing costs were expensed as incurred.

The Board of Directors has adopted this change in accounting policy after reviewing the requirements of Financial Reporting Standard No. 3 Accounting for Property, Plant and Equipment. While capitalisation of financing costs is not required under that standard until periods ending on or after 31 March 2004, the Board believes their inclusion more fairly reflects the true cost of the fixed assets.

This change has resulted in \$385,212 of financing costs being capitalised during the year.

#### Share of surpluses/(deficits) of associates

Under the new policy the Group's share of the net surpluses/(deficits) of associates is recognised as part of operating surplus before income tax. Previously, the Group recognised dividends received from associates in operating surplus before tax and recognised the Group's share of retained surpluses of associates in net surplus.

This change in accounting policy has resulted in an increase in operating deficit before income tax of (\$59,184) (2002: (\$143,036)). However, this change in accounting policy has had no effect on net surplus. Comparative figures have been adjusted to comply with the new policy to assist readers of the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

### 1 SEGMENT INFORMATION

#### No segment reporting

The entity 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. Therefore there is no requirement for segment reporting.

	Group		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000

### 2 OPERATING REVENUE

#### CONTINUING ACTIVITIES

##### Trading revenue

Foundation for Research, Science and Technology	29,118	28,962	29,118	29,153
Commercial - domestic	10,481	9,526	10,351	9,336
Commercial - overseas	17,815	15,099	16,739	14,285
Royalties	779	639	779	639
Ministry of Research, Science and Technology	4,228	4,228	4,228	4,228

##### Investment revenue

Share of associated company profit before tax	(59)	(143)	-	-
Interest	39	76	38	68

##### Other revenue

Other revenue	82	200	71	72
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<b>Total operating revenue</b>	<b>62,483</b>	<b>58,587</b>	<b>61,324</b>	<b>57,781</b>
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### 3 OPERATING EXPENSES

#### OPERATING EXPENSES:

##### Continuing activities

##### Depreciation

Buildings	297	264	297	264
Building auxiliary services	1,555	1,219	1,555	1,219
Plant and science equipment	1,886	1,726	1,876	1,715
Motor vehicles	6	1	6	1
Office furniture and equipment	110	80	107	77
Development costs	125	203	-	203
Software	422	387	420	386
Computer equipment	884	833	879	828

Total depreciation	5,285	4,713	5,140	4,693
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Loss on sale of property, plant and equipment	20	2	20	(4)
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Writeoff of goodwill	1,026	-	-	-
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Write down investments	67	-	1,650	-
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##### Costs of offering credit

Bad debts	91	22	91	22
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Doubtful debts	8	-	-	-
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##### Cost of borrowings

Interest paid	1,018	774	1,018	768
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##### Auditors' fees

Audit fees paid to chief entity auditor - audit	72	53	48	53
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Auditor's remuneration - other assurance services	89	24	89	24
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Audit fees paid to other auditors	18	18	-	-
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Other services	27	-	27	-
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##### Reorganisation expenses

Employee termination costs	312	765	312	765
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##### Sundry expenses

Donations	6	5	6	5
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Foreign exchange (gains)/losses	(753)	181	(760)	181
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Rental and operating lease	776	789	752	738
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Directors' fees	164	164	164	164
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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>4 SHARE CAPITAL</b>				
ISSUED AND PAID UP CAPITAL				
<b>Ordinary Shares - Class A</b>				
Balance at beginning of year	16,250	16,250	16,250	16,250
<b>Closing share capital</b>	<b>16,250</b>	<b>16,250</b>	<b>16,250</b>	<b>16,250</b>
<b>5 RESERVES</b>				
BALANCES				
Foreign currency translation reserve	62	58	-	-
	<b>62</b>	<b>58</b>	<b>-</b>	<b>-</b>
<b>Analysis</b>				
Foreign currency translation reserve				
Balance at beginning of year	58	(7)	-	-
Current year adjustment	4	65	-	-
<b>Balance at end of year</b>	<b>62</b>	<b>58</b>	<b>-</b>	<b>-</b>
<b>6 RETAINED EARNINGS</b>				
ANALYSIS				
Balance at beginning of year	11,999	11,077	12,257	11,278
Net surplus/deficit for the year	(578)	922	(506)	979
<b>Balance at end of year</b>	<b>11,421</b>	<b>11,999</b>	<b>11,751</b>	<b>12,257</b>
COMPOSITION				
Parent and subsidiaries	11,838	12,429		
Associates	(417)	(430)		
	<b>11,421</b>	<b>11,999</b>		
<b>7 MINORITY INTERESTS</b>				
Balance at beginning of year	(24)	30		
Share of surplus/deficit in subsidiaries	32	(49)		
Minority interests share of movements in reserves	-	(5)		
<b>Balance at end of year</b>	<b>8</b>	<b>(24)</b>		



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>8 BORROWINGS</b>				
<b>CURRENT BORROWINGS</b>				
Current portion of capitalised lease	192	188	192	188
<b>NON-CURRENT BORROWINGS</b>				
<b>Secured</b>				
Capitalised lease obligations	354	334	354	334
<b>Unsecured</b>				
National Bank term advances facility	23,750	15,250	23,750	15,250
<b>Total non-current borrowings</b>	<b>24,104</b>	<b>15,584</b>	<b>24,104</b>	<b>15,584</b>
<b>PRINCIPAL REPAYMENT SCHEDULE</b>				
<b>Capitalised lease obligations</b>				
Later than one, not later than two years	186	88	186	93
Later than two, not later than three years	98	246	98	241
Later than three, not later than five years	70	-	70	-
	354	334	354	334
<b>Other non-current borrowings</b>				
Later than one, not later than two years	23,750	15,250	23,750	15,250
<b>INTEREST RATES</b>				
<b>Weighted average effective interest rates on borrowings</b>				
	Group		Parent	
	2003 %	2002 %	2003 %	2002 %
Term advances facility (floating rate)	6.05	6.24	6.05	6.24
Capitalised lease obligations	9.00	8.92	9.00	8.92

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>9 DEFERRED TAX LIABILITY/(ASSET)</b>				
Balance at beginning of year	(825)	(962)	(843)	(982)
Deferred portion of current period tax expenses	233	128	233	128
Foreign exchange adjustment	-	(2)	-	-
Prior period adjustment	7	11	25	11
<b>Balance at end of year</b>	<b>(585)</b>	<b>(825)</b>	<b>(585)</b>	<b>(843)</b>
<b>10 INCOME TAX</b>				
Operating surplus before tax	(69)	1,592	(8)	1,698
<b>Permanent differences</b>				
Adjustment for losses not recognised under certainty criteria	-	280	-	-
Share of associates' tax paid earnings	(59)	143	-	-
Minority interest	37	-	-	-
Other non-deductible expenditure	26	-	6	-
Non-deductible entertainment expenditure	41	33	41	33
Investment writedown	1,457	-	1,457	319
Prior period adjustment	12	130	12	130
	<b>1,514</b>	<b>585</b>	<b>1,516</b>	<b>480</b>
Surplus subject to tax	1,445	2,178	1,508	2,178
Tax at 33%	477	719	498	719
<b>Comprising</b>				
Estimated current period tax assessment	240	548	261	548
Prior period	4	43	4	43
Deferred income tax liability	233	128	233	128
	<b>1,477</b>	<b>719</b>	<b>498</b>	<b>719</b>
<b>11 PAYABLES AND ACCRUALS</b>				
<b>CURRENT</b>				
<b>Unsecured</b>				
Trade creditors	2,578	3,688	2,546	3,521
Revenue in advance	1,840	3,013	1,826	2,709
Employee entitlements	1,906	1,957	1,895	1,940
Sundry creditors	281	122	281	65
Intercompany creditors	-	-	-	6
Annual leave	1,701	1,689	1,689	1,676
Goods and services tax (GST) payable	130	25	124	43
Other payables & accruals	1,052	1,775	905	1,485
	<b>9,488</b>	<b>12,269</b>	<b>9,266</b>	<b>11,445</b>
<b>NON-CURRENT</b>				
<b>Unsecured</b>				
Long service leave	1,108	1,104	1,108	1,104
	<b>1,108</b>	<b>1,104</b>	<b>1,108</b>	<b>1,104</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

	Cost or Valuation \$'000	2003 Acc Depn \$'000	Book Value \$'000	Cost or Valuation \$'000	2002 Acc Depn \$'000	Book Value \$'000
<b>12 PROPERTY, PLANT AND EQUIPMENT</b>						
<b>GROUP</b>						
Freehold land	3,673	-	3,673	3,673	-	3,673
Freehold buildings	40,621	(8,616)	32,005	28,345	(6,794)	21,551
Plant & equipment	27,846	(16,437)	11,409	23,343	(14,779)	8,564
Leased plant & equipment	715	(156)	559	464	(32)	432
Motor vehicles	55	(37)	18	67	(43)	24
Office equipment	890	(582)	308	1,416	(1,176)	240
Computer equipment at cost	6,281	(4,558)	1,723	5,628	(3,792)	1,836
Software at cost	2,336	(1,661)	675	1,879	(1,297)	582
Capital work in progress at cost	2,021	-	2,021	9,941	-	9,941
	84,438	(32,047)	52,391	74,756	(27,913)	46,843
<b>PARENT</b>						
Freehold land	3,673	-	3,673	3,673	-	3,673
Freehold buildings	40,621	(8,616)	32,005	28,345	(6,794)	21,551
Plant & equipment	27,805	(16,429)	11,376	22,998	(14,644)	8,354
Leased plant & equipment	715	(156)	559	464	(32)	432
Motor vehicles	55	(37)	18	67	(43)	24
Office equipment	870	(571)	299	1,397	(1,168)	229
Computer equipment at cost	6,129	(4,542)	1,587	5,608	(3,782)	1,826
Software at cost	2,331	(1,657)	674	1,874	(1,296)	578
Capital work in progress at cost	2,021	-	2,021	9,941	-	9,941
	84,220	(32,008)	52,212	74,367	(27,759)	46,608

### Capitalised interest

During the year Industrial Research Limited has constructed a glycosynthesis plant. As indicated in the accounting policies, finance costs that are directly attributable to the cost of the asset are included in the initial cost. The finance costs capitalised during the year to 30 June 2003 amounted to \$385,212 (2002: nil)

### 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 Act (CRI) 1992. The Auckland and Lower Hutt properties have Treaty of Waitangi caveats registered against their respective titles.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

### 13 COMMITMENTS

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

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Operating leases</b>				
Non cancellable operating lease commitments:				
Within one year	718	645	709	619
One to two years	629	542	621	542
Two to five years	865	608	862	608
	2,212	1,795	2,192	1,769

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

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Capital expenditure</b>				
Amounts committed to capital expenditure:				
Group and Parent excluding joint venture	341	2,593	341	2,593
Total description	341	2,593	341	2,593

### 14 INVESTMENTS IN SUBSIDIARIES

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

	Principal activities	Interest held by the Group	
		2003	2002
Materials Performance Technologies Pty Limited	Specialised consultancy services	100%	100%
Measurement Standards Laboratory of New Zealand Limited (MSL)	Non operating - name protection	100%	100%
Industrial Research Pty Limited	Non operating - name protection in Australia	100%	100%
SRV Limited	Meat industry automation	100%	73%
Bio-Sol Limited	Non-operating for involvement in consortium	100%	-
Superlink Developments Limited	Bare trustee of certain intellectual property	67%	67%
Kruse Commentary Systems Limited	Tourism industry commentaries utilising GPS	-	100%
Anztek Pty Limited	Marketing and commercialisation activities in Australia	51%	51%

All subsidiary entities have balance dates of 30 June.

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

#### Acquisition of Subsidiary

On 1 October 2001 the Group Acquired a further 51.33% 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 70% of Kruse Commentary Systems Limited not already owned which has been consolidated in the Group financial statements.

On 1 October 2002, the Group acquired 26.67% of the shares of SRV Limited for a cash consideration of \$21,355. From 1 October 2002 the operating results of SRV Ltd, consisting of an operating loss after taxation of \$(84,795), have been included in the Group statement of financial performance.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

	Group		
	2003 SRV \$'000	Kruse \$'000	2002 SRV \$'000
<b>Summary of the effect of acquisition of subsidiary</b>			
Net assets acquired:			
Bank balances	8	(68)	24
Net current assets	(13)	(1,250)	(152)
Property, plant & equipment	-	166	-
Intangible assets	-	233	85
	(5)	(919)	(43)
Minority interest	-	-	12
	(5)	(919)	(31)
Goodwill on acquisition	26	919	81
Consideration paid	21	-	50
Bank account acquired with subsidiary	(8)	68	(24)
Net cash impact of acquisition	13	68	26

### Amalgamation

On 30 June 2003 Kruse Commentary Systems Limited was amalgamated into the Parent. Until the date of amalgamation, Kruse Commentary Systems Limited had been a wholly owned subsidiary of the Parent. Under the amalgamation the Parent took control of all of the assets of Kruse Commentary Systems Limited and assumed responsibility for its liabilities. Kruse Commentary Systems Limited has been removed from the New Zealand register of companies.

	Parent	
	2003 \$'000	2002 \$'000
<b>Summary of the effect of the amalgamation of Kruse Commentary Systems Limited</b>		
Assets and liabilities amalgamated:		
Bank balances	(1)	-
Net current assets	184	-
Property, plant & equipment	29	-
Borrowings	(89)	-
	123	-
Carrying amount of shares in amalgamated subsidiary	(123)	-
Balance recognised in statement of movements in equity	-	-

The assets and liabilities have been brought into the Parent's financial statements at their carrying amounts which approximate their fair value. The operating results of Kruse Commentary Systems Limited after the amalgamation will be included in the statement of financial performance of the Parent at 30 June 2003. The balance on amalgamation has been recognised in the statement of movements in equity of the Parent. The comparatives for the Parent have not been adjusted for the amalgamation.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

### 15 INVESTMENTS IN ASSOCIATES

#### Details of associates

Significant associates comprise:

	Principal activities	Interest held by the group	
		2003	2002
Damping Systems Limited	Earthquake damping technologies	33%	33%
MPT-Matcor Pte Limited	Plant life cycle services in ASEAN region	50%	50%
GraceLinc Limited	Intellectual property commercialisation	50%	50%

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

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

#### Results of associates

	Group	
	2003 \$'000	2002 \$'000
Share of surplus (less deficits) before income tax	(59)	(143)
Total recognised revenues and expenses	(59)	(143)

#### Interests in associates

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Shares at cost	125	125	125	125
Unsecured advances	964	721	1,023	739
Share of total recognised revenues and expenses	(19)	-	-	-
	1,070	846	1,148	864



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

### 16 JOINT VENTURE

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

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Financial Performance</b>				
Revenue	82	142	82	142
Expenses	(82)	(142)	(82)	(142)

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000

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

#### Current assets

Cash at bank	10	18	10	18
Trade receivables	19	78	19	78
Share of total assets included in Group	29	96	29	96

#### Current liabilities

Trade creditors	29	96	29	96
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#### Net assets employed in the joint venture

	-	-	-	-
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### 17 INTANGIBLE ASSETS

The goodwill in both Kruse Commentary Systems Limited – \$918,741 and SRV Limited – \$106,935 was fully amortised at balance date.

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000

#### INSEPARABLE INTANGIBLE ASSETS

##### Goodwill on consolidation

Goodwill on consolidation at beginning of year	1,000	-	-	-
Unamortised balance at beginning of year	1,000	-	-	-
Goodwill arising on the acquisition of subsidiary	26	1,000	-	-
Unamortised balance at end of year - at valuation	1,026	1,000	-	-
Amortisation	(1,026)	-	-	-
Unamortised balance at end of year	-	-	-	-

##### Development expenditure

Development expenditure at beginning of year	776	530	370	370
Accumulated amortisation at beginning of year	(370)	(370)	(370)	(370)
Unamortised balance at beginning of year	406	160	-	-
Acquisitions	-	233	-	-
Current year development costs recognised as an asset	-	13	-	-
Current year amortisation	(406)	-	-	-
Unamortised balance at end of year	-	406	-	-

##### Other intangibles

Other intangibles at cost	85	85	-	-
Other intangibles at cost - accum amortisation	(85)	-	-	-
Unamortised balance at end of year	-	85	-	-

##### Total intangible assets

	-	1,491	-	-
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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

### 18 INVENTORIES

	Group		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Raw materials	15	153	15	67
Work in progress	563	630	563	594
Finished goods - chemicals	250	371	250	371
	828	1,154	828	1,032

### 19 ACCOUNTS RECEIVABLE

	Group		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Trade debtors	5,749	3,068	5,544	2,826
Less: Provision for doubtful debts	150	142	142	142
	5,599	2,926	5,402	2,684
Other debtors	915	1,723	913	1,716
Amounts due from other related companies	-	219	-	226
Prepayments	388	772	388	770
	388	991	388	996
<b>Accounts receivable</b>	6,902	5,640	6,703	5,396



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

### 20 FINANCIAL INSTRUMENTS

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

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

#### CURRENCY RISK

##### Policies

For specific one-off transactions undertaken in foreign currency it is the Group's policy to enter into foreign exchange forward contracts to manage the exposure to fluctuations in currency rates. The policy suggests that the level of cover for confirmed contracts should be between 75% – 100%.

##### Unrecognised balances

The fair values of foreign exchange instruments outstanding at balance date are:

	Group and Parent	
	2003 \$'000	2002 \$'000
<b>Fair Values</b>		
Sale commitments receivable	2,934	10,647
Sale commitments payable	(2,303)	(10,193)
Balance at end of year	631	454

#### INTEREST RATE RISK

##### Policies

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

##### Unrecognised balances

The notional or principal contract amounts of foreign exchange instruments outstanding at balance date are:

	Group		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Interest rate swaps	-	4,000	-	4,000
Forward rate agreements	-	6,000	-	6,000
Total description	-	10,000	-	10,000

#### CREDIT RISK

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

The Group has a credit policy which restricts the exposure to individual trade receivables and the Board of Directors reviews exposure to trade receivables on a regular basis. The group has significant concentrations of credit risk 2003: two customers 44.5% of trade receivables (2002: two customers 25.76%). Amounts owed by trade receivables are unsecured.

The Group does not require any collateral or security to support transactions with financial institutions. The counterparties used for banking and finance activities are financial institutions with high credit ratings.

#### FAIR VALUES

##### Methods and assumptions

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

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

The carrying values of these items are equivalent to their fair value. As such, they have been excluded from the table below.

##### Investments

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

##### Interest rate swaps and options and foreign currency forward exchange contracts

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

### 21 RELATED PARTY INFORMATION

#### GENERAL

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

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

All members of the Group are considered to be related parties of Industrial Research Limited. This includes the subsidiaries identified in note 14, the associated entities in note 15 and the joint venture identified in note 16.

#### RELATED PARTY TRANSACTIONS AND BALANCES

##### 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	
	2003	2002
	\$'000	\$'000
Sale of services and general recoveries	212	371
Purchase of services	253	294

MPT-Matcor Pte Ltd sold \$NZ102,146 to MPT Pty Ltd during the year

##### 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	
	2003	2002
	\$'000	\$'000
Materials Performance Technologies Pty Limited	340	232
MPT-Matcor Pte Limited	73	139
Anztek Pty Limited	50	54
SRV Limited	47	41
GraceLinc Limited	950	600
Kruse Commentary Systems Limited	-	853

Apart from the write down of advances to SRV 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.

All loans are repayable on demand.

### 22 CONTINGENT LIABILITIES

No contingent liabilities are known to exist at this time.

### 23 EVENTS OCCURRING AFTER BALANCE DATE

There have been no events subsequent to the balance date which require disclosure in or adjustment to the financial statements (2002: "no material events subsequent to balance date").



## NOTES TO THE FINANCIAL STATEMENTS

For the five years to June 2003

### INDUSTRIAL RESEARCH LIMITED AND SUBSIDIARIES EARNING TRENDS FOR THE FIVE YEARS TO JUNE 2003

Notes	Group				
	2003 Actual \$'000	2002 Actual \$'000	2001 Actual \$'000	2000 Actual \$'000	1999 Actual \$'000
<b>Operating Revenue (excluding interest)</b>	62,444	58,654	56,282	50,921	45,910
<b>Operating Expenses</b>	60,382	56,221	53,019	47,313	43,310
<b>Including:</b>					
Depreciation & related expenses	5,285	4,713	4,381	4,123	3,646
Rental and operating lease costs	776	789	804	608	576
Costs of offering credit	99	22	9	27	13
Directors' fees	164	164	187	166	161
Audit fees and expenses	90	71	90	79	54
Foreign exchange (gains)/losses	(753)	181	(379)	(194)	20
<b>Operational earnings</b>	2,062	2,433	3,263	3,608	2,600
Write down of goodwill	(1,093)	-	-	-	-
Impact of accounting policy changes	(59)	(143)	(151)	(26)	(666)
Net surplus arising on sale of investments				907	69
<b>Earnings before interest &amp; taxation (EBIT)</b>	910	2,290	3,112	4,489	2,003
Net interest expense	(1,364)	(698)	(332)	(390)	(138)
Impact of accounting policy changes	385				
<b>Surplus before taxation</b>	(69)	1,592	2,780	4,099	1,865
Taxation expense	477	719	1,080	1,041	573
<b>Surplus after taxation</b>	(546)	873	1,700	3,058	1,292
Minority interests after tax	(32)	49	(18)	71	-
<b>NET EARNINGS</b>	(578)	922	1,682	3,129	1,292

**DIRECTORY**

For the year ended 30 June 2003

**DIRECTORS****Chairman**Liz Coutts  
AUCKLANDAlison Andrew  
AUCKLANDDennis Chapman  
CHRISTCHURCHGeoff Milner  
GISBORNERichard Nottage  
WELLINGTONCraig Stobo  
AUCKLANDJohn Walley  
CHRISTCHURCH**Secretary**

John Harrison

**EXECUTIVE MANAGEMENT****Chief Executive**

Nigel Kirkpatrick

**Chief Business Officer**

John Harrison

**Chief Financial Officer**

Sarah Everton

**GM Organisational Development**

Rosemary Fowke

**GM BioPharm and GlycoSyn**

Denis Malone

**GM Marketing and Client****Development**

Jill Newson

**GM Business Services**

Joy Paterson

**GM New Ventures**

Geoff Todd

**GM Research and Development**  
**Operations**

Sunil Vather

**DISTINGUISHED SCIENTISTS/  
ENGINEERS**

Dr Ian Brown

Dr Bob Buckley

Dr Richard Furneaux

Dr Max Kennedy

Dr Ken Markham

Dr Jeff Talon

Dr Graham Weir

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On behalf of the Controller and  
Auditor General**SOLICITORS**Russell McVeagh  
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Baldwin Shelston Waters  
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