

 STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2004

\$000's	Note	GROUP			PARENT		
		Actual 2004	Budget 2004	Actual 2003	Actual 2004	Budget 2004	Actual 2003
Revenue							
Continuing activities							
Foundation of Research Science and Technology contracts		46,652	55,910	54,411	45,868	55,910	53,798
Other CRI		2,516	2,737	3,014	2,516	2,737	3,014
Government department		3,955	2,494	3,014	3,622	2,494	3,014
Commercial		67,232	73,835	53,721	50,891	51,076	42,130
Farm produce		5,854	8,102	4,809	5,854	8,102	4,809
Dividends		53	-	1	53	-	1
Discontinued activities	1	7,389	13,711	10,463	167	154	108
Total revenue		133,651	156,789	129,433	108,971	120,473	106,874
Operating expenses							
Personnel		60,799	64,147	59,455	53,627	54,926	52,477
Depreciation		6,699	6,895	6,471	5,816	6,327	5,718
Intellectual property amortisation and impairment		1,203	535	949	-	-	113
Amortisation and impairment of goodwill on acquisition		213	-	1,505	-	-	-
Loss (Gain) on sale of property plant & equipment		(211)	(2,244)	(743)	(213)	(2,244)	(743)
Other operating expenses	2	60,558	90,994	62,631	45,727	66,119	47,966
Asset writedown	11	(1,442)	-	-	(1,442)	-	-
Total operating expenses		127,819	160,327	130,268	103,515	125,128	105,531
Earnings before interest and tax		5,832	(3,538)	(835)	5,456	(4,655)	1,343
Interest received		592	448	582	1,021	344	705
Gain (loss) from investments	4	506	3,064	(1,984)	(236)	60	(4,537)
Net operating surplus before tax and minority interests		6,930	(26)	(2,237)	6,241	(4,251)	(2,489)
Tax expense	3	1,699	(768)	(925)	1,209	(2,144)	(847)
Net operating surplus before minority interests		5,231	742	(1,312)	5,032	(2,107)	(1,642)
Minority interest in surplus of subsidiaries		(353)	(302)	(54)	-	-	-
Net surplus after tax for the year		4,878	440	(1,366)	5,032	(2,107)	(1,642)

THE STATEMENT OF ACCOUNTING POLICIES AND THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS.

 STATEMENT OF MOVEMENTS IN EQUITY for the year ended 30 June 2004

\$000's	Note	GROUP			PARENT		
		Actual 2004	Budget 2004	Actual 2003	Actual 2004	Budget 2004	Actual 2003
Exchange differences on translation of the financial statements of independent foreign operations	5	18	-	30	-	-	-
Net surplus not recognised in statement of financial performance		18	-	30	-	-	-
Net surplus after tax for the year		4,878	440	(1,366)	5,032	(2,107)	(1,642)
Comprehensive income for the year		4,896	440	(1,336)	5,032	(2,107)	(1,642)
Dividend paid to shareholders		-	-	(1,200)	-	-	(1,200)
Movements in minority interests		(130)	302	54	-	-	-
Movements in asset revaluation reserve	5	(27)	-	(36)	-	-	-
Movements in forestry revaluation reserve	5	1,318	-	-	1,318	-	-
Transfer of foreign exchange translation reserve to retained earnings	5	(10)	-	-	-	-	-
Added to equity during the year		6,047	742	(2,518)	6,350	(2,107)	(2,842)
Equity at beginning of the year		78,113	84,334	80,631	78,257	84,513	81,099
Equity at end of the year		84,161	85,076	78,113	84,608	82,406	78,257

THE STATEMENT OF ACCOUNTING POLICIES AND THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS.

 STATEMENT OF FINANCIAL POSITION as at 30 June 2004

\$000's	Note	GROUP			PARENT		
		Actual 2004	Budget 2004	Actual 2003	Actual 2004	Budget 2004	Actual 2003
Current assets							
Cash and bank		12,063	(4,394)	6,611	9,358	2,317	4,563
Receivables	7	16,303	18,168	14,258	19,344	9,403	17,376
Prepayments		1,302	1,200	1,285	1,227	1,200	1,181
Livestock	9	5,528	3,030	3,209	5,528	3,030	3,209
Taxation	3	-	30	4,322	-	-	3,272
Inventory	8	4,310	3,609	5,276	902	900	945
Investments	4	12	-	12	12	-	12
Property held for sale	11	1,236	-	1,263	1,236	-	1,263
Total current assets		40,754	21,643	36,236	37,607	16,850	31,821
Non-current assets							
Investments	4	1,296	16,751	1,009	6,567	18,860	5,408
Property, plant and equipment	11	49,392	56,639	50,447	47,643	54,889	47,812
Forestry	11	2,179	702	702	2,179	702	702
Deferred tax	3	5,200	5,871	6,037	4,771	5,900	5,841
Intangible assets	12	3,332	3,148	4,568	-	-	1,114
Property held for sale	11	5,398	-	4,340	5,398	-	4,340
Total non-current assets		66,797	83,111	67,103	66,558	80,351	65,217
Total assets		107,551	104,754	103,339	104,165	97,201	97,038
Less:							
Current liabilities							
Payables	10	19,462	16,604	21,396	16,836	12,983	16,329
Provision for taxation	3	728	2	-	-	1	-
Provisions	13	1,902	1,097	1,458	1,458	811	1,099
Finance leases	15	-	137	320	-	-	-
Total current liabilities		22,092	17,840	23,174	18,294	13,795	17,428
Non-current liabilities							
Finance leases	15	-	450	273	-	-	-
Long term debt		-	140	114	-	-	-
Provisions	13	1,298	1,248	1,665	1,263	1,000	1,353
Total non-current liabilities		1,298	1,838	2,052	1,263	1,000	1,353
Net assets		84,161	85,076	78,113	84,608	82,406	78,257
Equity							
Share capital	6	47,073	47,073	47,073	47,073	47,073	47,073
Reserves	5	1,318	-	9	1,318	-	-
Minority interest		112	552	242	-	-	-
Retained earnings		35,658	37,451	30,789	36,217	35,333	31,184
Total equity		84,161	85,076	78,113	84,608	82,406	78,257

THE STATEMENT OF ACCOUNTING POLICIES AND THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS.



R CHRISTIE Chairman



A BLACKBURN Director

26 August 2004

 STATEMENT OF CASH FLOWS for the year ended 30 June 2004

\$000's	Note	GROUP			PARENT		
		Actual 2004	Budget 2004	Actual 2003	Actual 2004	Budget 2004	Actual 2003
Cash received from operating activities							
Cash from revenue proceeds		130,929	161,972	129,815	107,054	128,022	105,635
Interest		602	-	621	1,011	344	743
Dividends		27	-	1	27	-	1
GST received (net)		7,685	8,284	7,431	7,479	6,977	7,288
Total cash received from operating activities		139,243	170,256	137,868	115,571	135,343	113,667
Cash disbursed on operating activities							
Payments to employees		60,613	64,279	59,979	52,492	55,052	53,140
Payments to suppliers		62,376	86,772	64,533	48,579	64,033	47,555
Restructuring		1,065	2,807	582	1,065	2,807	582
GST paid to the IRD		7,409	7,483	7,393	7,340	6,105	7,312
Income tax paid		(4,256)	27	3,586	(3,163)	(1,445)	3,029
Interest paid		115	620	94	178	86	110
Total cash disbursed on operating activities		127,322	161,988	136,167	106,491	126,638	111,728
Net cash flow from operating activities	14	11,921	8,268	1,701	9,080	8,705	1,939
Cash received from investing activities							
Disposal of property, plant and equipment		552	3,570	1,581	552	3,650	1,581
Disposal of investments and intellectual property		462	-	-	-	1,100	-
Repayment of loans from subsidiaries		-	-	-	2,253	-	-
Total cash received from investing activities		1,014	3,570	1,581	2,805	4,750	1,581
Cash disbursed on investing activities							
Investment in property, plant and equipment		6,609	12,500	8,551	6,416	11,822	7,969
Purchase of investments and intellectual property		760	3,000	2,793	674	-	418
Loans to subsidiaries		-	-	-	-	-	4,324
Purchase of stocks and bonds		-	-	-	-	-	-
Total cash disbursed on investing activities		7,369	15,500	11,344	7,090	11,822	12,711
Net cash flow from investing activities		(6,355)	(11,930)	(9,763)	(4,285)	(7,072)	(11,130)
Cash disbursed on financing activities							
Payment of loan and finance lease		114	-	(2)	-	-	-
Payment of dividend		-	-	1,200	-	-	1,200
Net cash flow from financing activities		(114)	-	(1,198)	-	-	(1,200)
Total net cash flow		5,452	(3,662)	(9,260)	4,795	1,633	(10,391)
Cash at beginning of the year		6,611	(732)	15,871	4,563	684	14,954
Cash at end of the year		12,063	(4,394)	6,611	9,358	2,317	4,563

THE STATEMENT OF ACCOUNTING POLICIES AND THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS.

Accounting Entity

The financial statements are those of AgResearch Limited (AgResearch) and its subsidiaries (the Group).

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993, the Crown Research Institutes Act 1992, and the Public Finance Act 1989.

General Accounting Policies

The general accounting policies recognised by the Institute of Chartered Accountants of New Zealand as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis, have been followed in the preparation of these financial statements.

Accrual accounting is used in the recognition of expenses and revenues. Reliance is placed on the fact that the group is a going concern.

Particular Accounting Policies

The following particular accounting policies, which materially affect the measurement of surplus and the financial position, have been applied:

a) Principles of Consolidation

The consolidated financial statements include those of the parent company and its subsidiaries, accounted for using the purchase method. All intercompany transactions and unrealised surpluses and deficits between group companies have been eliminated.

b) Investments in Associates and Joint Ventures

Investments in associate companies are accounted for using the equity method, showing AgResearch's share in the net assets and post acquisition net surpluses or deficits.

Joint venture arrangements are accounted for using the proportionate method of consolidation recognising AgResearch's share of the assets, liabilities, expenditure and revenue.

c) Property, plant and equipment

AgResearch has the following classes of property, plant & equipment:

- | | |
|---------------------|--------------------------|
| • Land | • Leasehold Improvements |
| • Land Improvements | • Vehicles |
| • Buildings | • Plant and Equipment. |

All assets are recorded at the cost of purchase from the Crown as at 1 July 1992 adjusted for subsequent additions at cost, disposals and depreciation. Property, plant and equipment other than capital work in progress is recorded at cost less accumulated depreciation. Capital work in progress is recorded at cost.

Depreciation is provided for on a straight line basis on all tangible property, plant & equipment other than freehold land and capital work in progress, at depreciation rates calculated to allocate the assets' cost over their estimated useful lives.

Major depreciation periods are:

Buildings	10-60 years	Motor vehicles	3-10 years
Computer hardware	3-5 years	Land improvements	40 years
Plant and equipment	5-10 years	Leasehold improvements	5 years

d) Receivables

Receivables are stated at their estimated net realisable value.

e) Inventories

Inventories are stated at the lower of cost, determined on a first in first out basis, and net realisable value.

f) Livestock

Livestock are valued using National Average Market Values for Specified Livestock issued annually by Inland Revenue. Non specified livestock are valued at independent valuer valuations. An allowance is made for diminution in value of certain livestock held for research trials. Changes in the valuation of livestock are recognised in the Statement of Financial Performance.

g) Forestry Assets

Forests are recorded at estimated net current value on an annual basis using anticipated harvesting timing and yield and a discount rate of 9%. Changes in the valuation of forests are taken to the forests revaluation reserve.

h) Revenue Recognition

Revenue is recorded when earned. Contract revenue is recognised based on the percentage of work completed, any residual revenue recorded as either a receivable or revenue in advance.

i) Research and Development

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the criteria identified in Financial Reporting Standard 13 can be satisfied.

Intellectual property that satisfies the asset recognition criteria is deferred and amortised on a straight line basis over future periods from which benefits are expected to accrue. These future periods are between 5 and 7 years.



j) Intangible Assets

Purchased intangible assets such as intellectual property, patents, trademarks and licences are recorded at cost and amortised on a systematic basis over their estimated useful lives, which vary between 5 and 7 years.

k) Goodwill on Acquisition

Goodwill, which represents the excess of the purchase consideration over the fair value of the net assets, acquired at the time of acquisition of a business is amortised using the straight line method over the period during which benefits are expected to be received. Goodwill is currently amortised over a period of 10 years.

l) Leases

Operating lease payments are included in the determination of the operating surplus in equal instalments over the lease term.

m) Foreign Currencies

Transactions in foreign currencies are converted to New Zealand dollars at the rates of exchange ruling on the dates of the transactions. Realised and unrealised gains and losses arising from exchange rate fluctuations in foreign currencies are included in the Statement of Financial Performance.

Assets and liabilities of independent foreign operations are converted to New Zealand dollars at the rates of exchange ruling at balance date or, where forward exchange cover has been obtained, at the settlement rate with exchange differences recognised in the foreign currency translation reserve.

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the time of the transaction, or at rates approximating them.

n) Financial Instruments

Financial instruments carried in the Statement of Financial Position include cash and bank balances, investments in associates, receivables and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements where relevant.

Forward exchange contracts entered into as hedges of foreign exchange assets or liabilities are valued at the exchange rates prevailing at year end. Any unrealised gains or losses are offset against foreign exchange gains or losses on the related asset or liability. Unrealised gains or losses on forward exchange contracts entered into as hedges of future sales or purchases are deferred and included in the measurement of the purchase or sale transaction. Premiums paid on currency options are amortised over the period to maturity.

Financial instruments purchased with the intention of being held for the long term or until maturity are recorded at cost which is adjusted for the amortisation of premiums and accretion of discounts to maturity.

o) Income Tax

Tax is provided in the financial statements on the basis of the estimated tax payable on the accounting income. Future tax liabilities resulting from timing differences are shown in the financial statements using the liability method on a comprehensive basis. Future tax benefits are not recognised unless there is virtual certainty of realisation.

p) Goods and Services Tax

The financial statements are prepared on a GST-exclusive basis.

q) Onerous Contracts

A provision for an onerous contract is recognised where the benefits expected to be derived from a contract are less than the unavoidable costs of meeting the company's obligation under the contract. The provision is stated at the present value of the future net cash outflows that are expected to settle the obligation.

r) Finance Leases

Leases under which the company assumes substantially all the risks and rewards of ownership are classified as finance leases and are capitalised. The finance charge is allocated to periods during the lease term.

Changes in Accounting Policies

On 30 June 2004 the Group changed its accounting policy in respect of the carrying value of livestock from a weighted average cost for purchased livestock and national standard cost for progeny to fair value less estimated point of sale costs. The change in policy has resulted in 30 June livestock on hand values increasing by \$2.1m over the previous valuation policy. The increase in value of livestock has been taken direct to the Statement of Financial Performance.

On 30 June 2004 the Group changed its accounting policy in respect of the carrying value of forest assets from historical cost to estimated net current value based upon anticipated harvest timing and yield and a discount yield of 9%. The change in policy has resulted in an increase of \$1.3m in the carrying value of forests over historical costs. The change has been taken direct to the Forest Revaluation Reserve.

The Board of Directors changed the above accounting policies to ensure that biological assets are measured in a manner consistent with guidance notes issued by the Institute of Chartered Accountants of New Zealand.

1. Continuing and Discontinued Activities

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Continuing Activities				
Operating revenue	126,262	118,970	108,804	106,766
Operating surplus (deficit) before tax and minority interests	7,586	(2,358)	6,188	(2,512)
Discontinued Activities				
Operating revenue	7,389	10,463	167	108
Operating surplus (deficit) before tax and minority interests	(656)	121	53	23
Totals				
Operating revenue	133,651	129,433	108,971	106,874
Operating surplus (deficit) before tax and minority interests	6,930	(2,237)	6,241	(2,489)

Discontinued Operations

The shareholding in Sastek was sold on 6 April 2004. The 2004 figures are for the nine months to the end of March 2004. The Waipawa farm was sold on 18 June 2004. This was a research station. The 2004 figures are for the 12 months to the end of June 2004. The comparative figures are for the 12 months ended June 2003.

2. Operating expenses

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Auditors' remuneration				
- audit fee (Deloitte)	147	102	90	64
- audit fee (KPMG) - Sastek	33	36	-	-
- other services (Deloitte)	57	11	57	11
- other services (KPMG) - Sastek	33	18	-	-
Directors fees	422	317	244	202
Interest expense	115	94	179	110
Financial and legal costs	2,722	2,213	1,312	1,011
Operating lease costs	2,270	2,129	1,968	1,880
Bad debts	66	216	69	336
Change in provision for doubtful debts	62	(169)	55	(169)
Site and property costs	6,019	5,814	5,808	5,635
Supplies	18,120	19,869	9,837	10,117
Donations	153	1	153	1
Exchange gains (losses)	235	(349)	283	(334)
Other operating expenses	30,104	32,329	25,672	29,102
Total operating expenses	60,558	62,631	45,727	47,966

Result before Strategic Investment (Reinvestment)

As per the Minister's Operating Framework, Crown Research Institutes (CRI's) may seek extraordinary strategic investments that lower their rate of return but which will, or quite probably will, advantage the CRI and the country in the longer term. The Minister will actively contemplate a lower rate of return in such circumstances especially when the science involved in such a strategic investment is higher risk than normal.

The effect of these strategic investments in the current year are:

\$000's	GROUP
	2004
Earnings Before Interest and Tax	5,832
Add back Strategic Investments	
Non-commercial for the national good	4,487
Commercial with a lower than average rate of return	4,784
Total Strategic Investments	9,271
Adjusted Earnings Before Interest, Tax and Reinvestment	15,103

**3. Tax**

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Net operating surplus before tax	6,930	(2,237)	6,241	(2,489)
Add back share of associates	8	1,984	-	-
Net surplus before tax	6,938	(253)	6,241	(2,489)
Tax @ 33%	2,290	(83)	2,060	(821)
Tax under (over) provided in previous year	354	(994)	419	(970)
Tax effect of permanent differences:				
Capital gain	(69)	(193)	(63)	(193)
Impairment adjustment	(206)	535	(398)	1,496
Losses transferred	-	-	(849)	(387)
Losses recognised from previous years	(230)	-	-	-
Non taxable gain on consolidation of joint ventures	(667)	(697)	-	-
Non deductible expenses	504	596	50	151
Other	(277)	(89)	(10)	(123)
Tax expense	1,699	(925)	1,209	(847)
The tax expense comprises:				
Current tax movement	862	(952)	139	(904)
Deferred tax movement	837	27	1,070	57
Tax shown in Statement of Financial Performance	1,699	(925)	1,209	(847)
Deferred tax				
Opening balance	6,037	6,064	5,841	5,898
Tax effect of timing differences from current year's financial performance	(367)	15	(586)	(37)
Tax effect of prior year adjustments	(470)	(42)	(484)	(20)
Total deferred tax	5,200	6,037	4,771	5,841
Taxation Provision				
Balance at 1 July	(4,322)	239	(3,272)	685
Increases/(decreases) to existing provisions	1,003	77	48	103
Amounts charged against provisions	4,107	(3,627)	3,284	(3,070)
Amounts of provisions reversed	(60)	(1,011)	(60)	(990)
Balance at 30 June	728	(4,322)	-	(3,272)
Represented by				
Current liabilities /(assets)	728	(4,322)	-	(3,272)
Non-current liabilities	-	-	-	-

4. Investments

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Investments in Subsidiaries and Associates (carrying value)				
Celentis Limited	-	-	4,564	4,564
AgResearch (Pastoral Genomics Consortia) Limited	-	-	5	-
AgResearch (Meat Biologics Consortia) Limited	-	-	152	32
Farmax Limited	-	-	125	-
Loan to CelComThree Limited	-	-	450	-
Associates				
Ovita Limited	332	155	307	155
Ultrafine Merino Limited	12	12	12	12
Covita Limited	-	197	-	-
Total investment in subsidiaries and associates	344	364	5,615	4,763
Other shares and investments valued at cost				
Fonterra Cooperative Group	787	499	787	499
Ravensdown Corporation Limited	116	96	116	96
Growbulk	3	3	3	3
Other	58	59	58	59
Total investments	1,308	1,021	6,579	5,420
Represented by:				
Current assets	12	12	12	12
Non-current assets	1,296	1,009	6,567	5,408
Total investments	1,308	1,021	6,579	5,420
Contribution of associates to surplus:				
Share of surplus/(deficit) before tax of associates	(8)	(1,984)	-	-
Less tax	-	-	-	-
Share of surplus/(deficit) after tax	(8)	(1,984)	-	-
Gain (loss) from investments				
Gain on disposal of subsidiary	531	-	-	-
Impairment of associates	-	-	(46)	(1,845)
Share of surplus from associates	(8)	(1,984)	-	-
Impairment of subsidiaries	-	-	(190)	(2,689)
Impairment of other investments	(17)	-	-	(3)
	506	(1,984)	(236)	(4,537)

Impairment of Investment in Subsidiaries and Associates

AgResearch invests predominantly in startup biotechnology companies. Such companies have high cash burn and often are unable to carry intellectual property as an asset. Accordingly the investments' net assets are less than cost.

Movement in carrying value of investments is shown in Note 17.

**5. Reserves**

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Foreign currency translation reserve:				
Balance as at 1 July	(18)	(48)	-	-
Current year movement	8	30	-	-
Transfer to Retained Earnings	10	-	-	-
Balance as at 30 June	-	(18)	-	-
Asset revaluation reserve:				
Balance as at 1 July	27	63	-	-
Current year movement	(27)	(36)	-	-
Balance as at 30 June	-	27	-	-
Forestry Revaluation Reserve				
Balance as at 1 July	-	-	-	-
Current year movement	1,318	-	1,318	-
Balance as at 30 June	1,318	-	1,318	-
Total reserves	1,318	9	1,318	-

6. Share capital

Capital consists of 47,073,000 ordinary shares paid to \$1.00 each.

7. Receivables

Trade receivables	14,087	11,547	11,457	8,535
Receivables from associates	989	252	989	247
Receivables from subsidiaries	-	-	5,107	5,510
Receivables from related parties	1,354	2,524	1,911	3,149
Total receivables as at 30 June	16,430	14,323	19,464	17,441
Less provision for doubtful debts	127	65	120	65
Net receivables	16,303	14,258	19,344	17,376

8. Inventory

The majority of inventory is products which may be subject to a retention of title clause or may be subject to a security interest under the Personal Properties Securities Act.

9. Livestock

Livestock was revalued during the year due to a change in accounting policy. The revaluation increased the value of livestock on hand by \$2.16m.

10. Payables

Trade creditors	10,904	11,847	8,581	8,016
Payables to associates	3	7	3	7
Goods and services tax	822	546	872	733
Payables to directors	148	22	69	15
Unearned revenue	3,280	3,849	3,274	3,081
Accrued salaries and wages	1,122	1,587	1,044	1,479
Annual leave	3,183	3,538	2,993	2,998
Total payables	19,462	21,396	16,836	16,329

11. Property, Plant and Equipment

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Total Property, Plant and Equipment				
Cost	99,177	95,359	95,480	91,719
Less accumulated depreciation	49,785	44,912	47,837	43,907
Net Book Value Property, Plant and Equipment	49,392	50,447	47,643	47,812
Depreciation charge for year	6,699	6,471	5,816	5,718
Represented by:				
Freehold Land				
Cost	13,183	13,318	13,183	13,318
Less accumulated depreciation	717	711	717	711
Net Book Value Freehold Land	12,466	12,607	12,466	12,607
Depreciation charge for year	154	80	154	80
Freehold Buildings				
Cost	13,798	13,894	13,565	13,660
Less accumulated depreciation	3,995	3,796	3,861	3,684
Impairment				
Net Book Value Freehold Buildings	9,803	10,098	9,704	9,976
Depreciation charge for year	604	325	587	311
Leasehold Improvements				
Cost	16,414	16,156	16,311	16,132
Less accumulated depreciation	5,543	4,945	5,506	5,001
Net Book Value Leasehold Improvements	10,871	11,211	10,805	11,131
Depreciation charge for year	519	514	506	501
Plant and Equipment				
Cost	55,658	51,614	52,297	48,485
Less accumulated depreciation	39,406	35,296	37,629	34,389
Net Book Value Plant and Equipment	16,252	16,318	14,668	14,096
Depreciation charge for year	5,420	5,514	4,567	4,819
Motor Vehicles				
Cost	124	124	124	124
Less accumulated depreciation	124	122	124	122
Net Book Value Motor Vehicles	-	2	-	2
Depreciation charge for year	2	7	2	7
Leased Assets				
Cost	-	253	-	-
Less accumulated depreciation	-	42	-	-
Net Book Value Leased Assets	-	211	-	-
Depreciation charge for year	-	31	-	-

Impairment Adjustment

Property held by AgResearch Ltd was reviewed for impairment in value. An impairment reversal of \$1,441,773 was made in 2004 (2003: \$Nil) in the Statement of Financial Performance.

**Property held for sale**

Property at Tara Hills and Wallaceville is held for sale (2003 relates to Tara Hills and Wallaceville). Estimated market value is in excess of book value. Book value of properties held for sale is as follows:

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Cost	12,497	12,127	12,497	12,127
Less accumulated depreciation	3,018	2,237	3,018	2,237
Less impairment	2,845	4,287	2,845	4,287
Net Book Value	6,634	5,603	6,634	5,603
Represented by:				
Current assets	1,236	1,263	1,236	1,263
Non-current assets	5,398	4,340	5,398	4,340
	6,634	5,603	6,634	5,603

Government Valuations

The latest Government valuations (dated between 2000 and 2003) of freehold land and buildings are:

	71,062	59,212	71,062	59,212
Forestry				
Cost	861	702	861	702
Revaluation	1,318	-	1,318	-
Net Book Value Forestry	2,179	702	2,179	702

Forestry Valuations

Forestry was valued by John Turkington (B.S.C., N.Z.S.C.S.) on 28 June 2004. Forestry was valued at \$2,089,124.

The difference between the valuation and the net book value relates to a joint venture in which forestry is recorded at cost.

12. Intangible assets

Intellectual property	1,931	2,941	-	1,114
Goodwill on acquisition	1,360	1,573	-	-
Patents and licences	41	54	-	-
Total intangible assets	3,332	4,568	-	1,114
Reconciliation of Intellectual Property				
Opening balance	2,941	2,086	1,114	1,087
Amortisation	(455)	(557)	-	(113)
Impairment	(735)	(378)	-	-
Capitalised	180	384	-	140
Purchased	-	1,410	-	-
Transfer to Grasslanz Technology Ltd	-	-	(1,114)	-
Exchange variation	-	(4)	-	-
Disposed of	-	-	-	-
Closing Balance	1,931	2,941	-	1,114
Reconciliation of Goodwill on Acquisition				
Opening balance	1,573	1,430	-	-
Amortisation	(213)	(261)	-	-
Purchased	-	1,648	-	-
Impairment	-	(1,244)	-	-
Closing Balance	1,360	1,573	-	-
Reconciliation of Patents and Licences				
Opening balance	54	68	-	-
Amortisation	(13)	(14)	-	-
Purchased	-	-	-	-
Closing Balance	41	54	-	-

13. Provisions

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Total Provisions				
Balance at 1 July	3,123	4,205	2,452	3,682
Increases/(decreases) to existing provisions	3,563	1,914	3,257	1,572
Amounts charged against provisions	(3,027)	(2,825)	(2,823)	(2,631)
Amounts of provisions reversed	(459)	(171)	(165)	(171)
Balance at 30 June	3,200	3,123	2,721	2,452
Represented by:				
Current liabilities	1,902	1,458	1,458	1,099
Non-current liabilities	1,298	1,665	1,263	1,353
Total Provisions	3,200	3,123	2,721	2,452
<p>The resulting outflows of all provisions except for Long Term Staff Liability are expected to be paid within the following financial year. The 2003 provision for onerous contracts related to a shortfall anticipated on the completion of a science research contract.</p> <p>The provisions made are based on the best current estimate of outflows expected to settle these obligations.</p>				
Represented by:				
Restructuring				
Balance at 1 July	345	312	345	312
Increases/(decreases) to existing provisions	171	345	171	345
Amounts charged against provisions	(196)	(144)	(196)	(144)
Amounts of provisions reversed	(149)	(168)	(149)	(168)
Balance at 30 June	171	345	171	345
Represented by:				
Current liabilities	171	345	171	345
Non-current liabilities	-	-	-	-
ACC				
Balance at 1 July	239	226	227	222
Increases/(decreases) to existing provisions	352	343	336	335
Amounts charged against provisions	(343)	(330)	(329)	(330)
Amounts of provisions reversed	-	-	-	-
Balance at 30 June	248	239	234	227
Represented by:				
Current liabilities	248	239	234	227
Non-Current liabilities	-	-	-	-
Onerous Contracts				
Balance at 1 July	40	484	40	484
Increases/(decreases) to existing provisions	-	-	-	-
Amounts charged against provisions	(40)	(444)	(40)	(444)
Amounts of provisions reversed	-	-	-	-
Balance at 30 June	-	40	-	40
Represented by:				
Current liabilities	-	40	-	40
Non-current liabilities	-	-	-	-
Employee Entitlements				
Balance at 1 July	2,499	3,183	1,840	2,664
Increases/(decreases) to existing provisions	3,040	1,226	2,750	892
Amounts charged against provisions	(2,448)	(1,907)	(2,258)	(1,713)
Amounts of provisions reversed	(310)	(3)	(16)	(3)
Balance at 30 June	2,781	2,499	2,316	1,840



Provisions continued

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Represented by:				
Current liabilities	1,483	834	1,053	487
Non-current liabilities	1,298	1,665	1,263	1,353
Total Provisions	3,200	3,123	2,721	2,452

14. Reconciliation of net surplus after tax with net cash inflow from operating activities

Net surplus after tax	4,878	(1,366)	5,032	(1,642)
Non-cash items:				
Depreciation	6,699	6,471	5,816	5,718
Intellectual property amortisation and impairment	1,203	949	-	113
Amortisation and impairment of goodwill on acquisition	213	1,505	-	-
Intellectual property capitalisation	(139)	(384)	-	(140)
Intellectual property movement attributable to sastek	-	34	-	-
Provision for long term staff liabilities	(367)	152	(91)	97
Deferred tax	837	27	1,070	57
Equity accounted (profit)/loss	8	1,984	-	-
Investment writedown and revaluation	(457)	(131)	-	-
Minority interest	(224)	54	-	-
Asset impairment adjustment	(1,442)	-	(1,442)	-
Recognition of discount on acquisition (1999)	(33)	(214)	(3)	(214)
Provision for doubtful debts	62	(169)	55	(169)
Impairment adjustment	-	-	236	4,537
Movements in working capital:				
Change in inventory	982	145	57	391
Change in livestock	(2,319)	48	(2,319)	48
Change in receivables	(2,742)	1,884	(1,950)	474
Change in prepayments	(16)	(148)	(47)	(149)
Change in provisions	(401)	(1,255)	(79)	(1,360)
Change in accounts payable	(952)	(382)	(1,246)	(252)
Change in restructuring	(174)	33	(174)	33
Change in tax	5,115	(4,561)	3,297	(3,957)
Items classified as investing activities:				
Gain on sale of property, plant and equipment	(211)	(743)	(213)	(743)
Gain on sale of shares	(58)	-	-	-
Accrual plant and equipment, intellectual property & investments	1,459	(2,232)	1,081	(903)
Net cash inflow from operations	11,921	1,701	9,080	1,939

15. Contingent liabilities and commitments

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Capital commitments				
Asset purchases committed and contracted for at balance date:	216	236	211	93
Total capital commitments	216	236	211	93

Litigation and Other Contingent Liabilities

AgResearch Limited has received notice from Genetics Technologies Limited (an Australian company) that there is a potential infringement of patent rights. Management is negotiating an appropriate commercial result. The outcome is unknown as at balance date.

Contingent liabilities and commitments *continued*

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Non-cancellable operating leases				
Payable no later than one year	2,532	2,190	2,095	1,782
Payable later than one, not later than two years	2,172	1,586	1,762	1,481
Payable later than two, not later than five years	4,245	4,088	3,716	3,343
Payable later than five years	1,242	2,678	1,242	2,048
Total non-cancellable operating leases	10,191	10,542	8,815	8,654
Finance lease commitments				
Finance lease rentals are payable as follows:				
Payable no later than one year	-	320	-	-
Payable later than one, not later than two years	-	273	-	-
Total lease liability	-	593	-	-
Represented by:				
Current liability	-	320	-	-
Non-current liability	-	273	-	-
Total lease liability	-	593	-	-

Finance leases related to Sastek in the 2003 year.

16. Segmental reporting

AgResearch is committed to its Life Science Vision, resulting in better lives for New Zealanders. AgResearch Limited operates predominantly in one industry - Life Sciences. It has customers worldwide.

Analysis by Geographic Location

New Zealand		
Revenue	127,037	120,955
Intersegment sales	16	18
Total Revenue	127,053	120,973
Net Profit Before Tax	6,946	(1,536)
Segment assets	107,551	99,329
Australia		
Revenue	7,206	9,060
Intersegment sales	16	424
Total Revenue	7,222	9,484
Net Profit Before Tax	(369)	(755)
Segment assets	-	4,010
Eliminations		
Revenue	-	-
Intersegment sales	(32)	(442)
Total Revenue	(32)	(442)
Net Profit Before Tax	-	-
Segment assets	-	-
Consolidated		
Revenue	134,243	130,015
Intersegment sales	-	-
Total Revenue	134,243	130,015
Net Profit Before Tax	6,577	(2,291)
Taxation	1,699	(925)
Net Profit	4,878	(1,366)
Total Assets	107,551	103,339



17. Subsidiaries and Associates

Subsidiary Companies	Balance Date	% Interest Held	Principal Activity
Celentis Limited	30 June	100	Commercialise new technology and facilitate deal flow with finance markets
AgVax Developments Limited	30 June	100	Distribute animal remedies that provide 'serious solutions' vaccines and other biotechnology products for transfer to industry
BioProducts (New Zealand) Limited	30 June	100	Manufacture and distribution of nutraceuticals
Celentis (Australia) Limited	30 June	100	Holding Company
CelcomOne Limited	30 June	100	Joint Venture participating Company
CelcomTwo Limited	30 June	100	Joint Venture participating Company
CelcomThree Limited	30 June	100	Joint Venture participating Company
Grasslanz Technology Limited	30 June	100	Cultivar development and management
AgResearch (USA) Limited	30 June	100	Holding Company
AgResearch (Pastoral Genomics Consortia) Limited	30 June	100	Joint Venture participating Company
AgResearch (Meat Biologics Consortia) Limited	30 June	100	Joint Venture participating Company
AgResearch (PPGR Consortia) Limited	30 June	100	Joint Venture participating Company
AgResearch Shelf Four Limited	30 June	100	Not Trading
AgResearch Shelf Five Limited	30 June	100	Not Trading
FarMax Limited	30 June	50	Distribution of farm management software

On 6 April 2004 Celentis Australia sold its shareholding in Sastek Pty Ltd

AgResearch Limited has two members of a total of four directors on the Board of FarMax Limited. AgResearch provides management, accounting and software development services to Farmax Limited.

\$'000's	GROUP		PARENT	
	2004	2003	2004	2003
Movement in investment in subsidiaries				
Opening balance	-	-	4,597	6,868
Purchases	-	-	890	418
Impairments	-	-	(190)	(2,689)
Disposals	-	-	-	-
Closing Balance	-	-	5,297	4,597
Impairment of Subsidiaries				
Celentis Limited				
Cost	-	-	6,867	6,867
Impairment	-	-	(2,303)	(2,303)
Net Book Value	-	-	4,564	4,564
AgResearch (Pastoral Genomics Consortia) Limited				
Cost	-	-	433	268
Impairment	-	-	(428)	(268)
Net Book Value	-	-	5	-
AgResearch (Meat Biologics Consortia) Limited				
Cost	-	-	300	150
Impairment	-	-	(148)	(118)
Net Book Value	-	-	152	32

\$000's	GROUP	
	2004	
Acquisition of Subsidiaries		
Grasslanz Technology Limited		
Acquired on 3 September 2003		
Consideration	2,015	
Impact on the Consolidated results is:		
Net Assets Acquired:		
Bank	180	
Receivables	475	
Inventory	231	
Other Current Assets	-	
Property, Plant and Equipment	83	
Intangibles	1,113	
Current Liabilities	(67)	
Owing to AgResearch Limited	(2,015)	
Net Assets Acquired	-	
Disposal of Subsidiaries		
Sastek Pty Ltd (Sold on 6 April 2004)		
Gain on disposal of assets	473	
Gain on sale of shares	58	
Contribution to surplus to date of sale after tax and minority interests	(320)	

Associate Companies

	Balance Date	% Interest Held	Principal Activity
Clone International Pty Limited	30 June	25	Cloning of High Value horses, cattle and sheep.
Ovita Limited	30 June	33	Developing technology from intellectual property for on farm application from sheep genome research.
Ultrafine Merino Limited	30 June	40	Breed sheep which produce high quality fine wool.
Velvet Antler Research New Zealand Limited	30 September	50	Manages investments in velvet antler research and commercialise the intellectual property.
DEEResearch Limited	30 June	50	Research and Development relevant to deer Farming and processing for deer products (except deer velvet).

During the year Celentis Ltd sold its shareholding in Covita Ltd to AgResearch Ltd. AgResearch then onsold that shareholding to Ovita Ltd in exchange for shares in Ovita Ltd. The percentage of shareholding in Ovita Ltd held by AgResearch remained the same.

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Movement in investment in Associates				
Opening balance	361	2,012	167	2,012
Purchases	198	333	198	-
Share of associate profits and losses	(8)	(1,984)	-	-
Impairments	(12)	-	(45)	(1,845)
Disposals	(198)	-	-	-
Closing Balance	341	361	320	167
Impairment of Associates				
Ovita Limited				
Cost	-	-	2,198	2,000
Impairment	-	-	(1,891)	(1,845)
Net Book Value	-	-	307	155
Sale of Associates				
Covita Limited				
Opening carrying value	198			
Sale proceeds	(198)			



Other shareholdings

	Balance Date	% Interest Held	Principal Activity
Vaccine Holdings Limited	30 June	15	Holding company
Joint Ventures (and Joint Venture Participant where relevant)			
Comone (CelcomOne Limited)	31 March	37.5	Develop asthma vaccine to commercialisation
Growbulk	30 June	20	The establishment of a strain of sheep producing high quality wool bulk fibre
Innervision	30 June	50	Provision of CT Scanning services to the sheep breeding industry
Meat Biologics Consortia (AgResearch (Meat Biologics Consortia) Limited)	30 June	16	To undertake research to create, develop and exploit intellectual property relating to Meat Biologics
Pastoral Genomics Consortia (AgResearch (Pastoral Genomics Consortia) Limited)	30 June	10	To undertake research into clover genomics and exploit any resulting intellectual property
Pastoral Greenhouse Gases Consortia (AgResearch (PPGR Consortia) Limited)	30 June	33	To undertake research into greenhouse gases produced by ruminants and exploit any resulting intellectual property
Spectra-Net (CelcomThree Limited)	30 June	50	To develop the intellectual property used in the joint venture and undertake ongoing research
Encoate (CelcomTwo Limited)	30 June	50	To develop the intellectual property used in the joint venture and undertake ongoing research
Life Science Ventures	31 December accounted to 30 June	50	Funding and investment into Life Sciences, biotechnology, medicine, food and agriculture
Tainui Forestry Joint Venture	Not yet established accounted to 30 June	50	Hold and exploit a forestry right held jointly

The Life Sciences and Tainui Forestry Joint Ventures were not audited.

Impairment of Joint Venture

\$000's	GROUP		PARENT	
	2004	2003	2004	2003
Growbulk				
Cost	6	6	6	6
Impairment	(3)	(3)	(3)	(3)
Net Book Value	3	3	3	3

18. Transactions with related parties

During the year AgResearch Ltd entered into various transactions with subsidiaries and associates at commercial rates. Transactions with related parties during the year were \$24.8m (2003: \$15.6m) (see Note 7 regarding receivables from related parties).

No related party debts payable by Celentis (Australia) Limited have been written off during the year (2003 \$176,530).

The ultimate shareholder of the company is the Crown. AgResearch Limited undertakes many transactions with other Crown Research Institutes, State Owned Enterprises and Government Departments, which are carried out upon a commercial and arms length basis. It is not intended that these fall within the scope of related party disclosures and as such are not detailed in these financial statements.

Apart from reimbursement of expenses and payment of Directors fees there were no transactions with Directors during the year.

19. Financial Instruments

Financial instruments carried on the Statement of Financial Position include cash and bank balances, investments in associates, receivables and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements where relevant.

Financial instruments purchased with the intention of being held for the long term or until maturity are recorded at cost, which is adjusted for the amortisation of premiums and accretion of discounts to maturity.

Credit Risk

Financial instruments which potentially subject the company to credit risk principally include cash, short term deposits, forward rate agreements and accounts receivable.

Credit risk with respect to cash and short term deposits is reduced by investing with (S&P A Grade) registered banks. While accounts receivable are unsecured they are subject to established credit control procedures. No collateral is held.

Fair Value

Cash and bank balances, investments in associates, receivables and trade creditors.

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

Currency Risk

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the time 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 or, where forward exchange cover has been obtained, at the settlement rate with exchange differences recognised in the foreign currency translation reserve.

Currency risk in respect of the company's transactions is managed in accordance with a treasury policy approved by the Board and may include forward exchange contracts being taken out for any foreign currency exposure. The notional contract amounts outstanding at year end were as follows (in NZ\$):

Foreign currency contracts \$000's	GROUP		PARENT	
	Contract value	Fair value	Contract value	Fair value
Value date				
2 July 2004	176	171	176	171
30 July 2004	160	159	160	159
3 August 2004	104	101	104	101
20 August 2004	66	66	66	66
2 September 2004	47	46	47	46
20 September 2004	165	165	165	165
5 October 2004	237	230	237	230
20 October 2004	20	20	20	20
29 October 2004	162	159	162	159
2 November 2004	162	157	162	157
22 November 2004	56	56	56	56
2 December 2004	119	115	119	115
15 December 2004	72	72	72	72
6 January 2005	136	132	136	132
20 January 2005	33	33	33	33
28 January 2005	164	159	164	159
2 February 2005	51	49	51	49
21 February 2005	150	149	150	149
2 March 2005	70	68	70	68
21 March 2005	152	151	152	151
4 April 2005	80	78	80	78
20 April 2005	232	231	232	231
3 May 2005	71	69	71	69
20 May 2005	226	225	226	225
2 June 2005	62	60	62	60
20 June 2005	138	137	138	137
5 July 2005	48	46	48	46
20 July 2005	154	153	154	153
Total	3,313	3,257	3,313	3,257

At balance date, the fair value of the foreign currency contracts is estimated to be \$56,000 less than the contract value.

20. Borrowings

The company had no borrowings outstanding at the end of June 2004. A multi-option credit facility of up to \$15m is held by AgResearch Limited with a negative pledge covenant agreement.

21. Significant Events after Balance Date

On 13th August 2004 Celentis Limited sold its shareholding in BioProducts Ltd.

The Board acknowledges the need for the highest standards of corporate governance practice and ethical conduct by all directors and employees of AgResearch Limited and its subsidiaries.

The Board endorses the overall principles embodied in the New Zealand Institute of Directors' 'Code of Proper Practice for Directors'. It has only independent directors on the Board whose skills and experience bring balance and diversity to decision-making.

Role of the Board

The Board is responsible to shareholders for charting the direction of the group by the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management's running of the business to ensure implementation is in accordance with the agreed framework. The Board delegates the conduct of the day-to-day affairs of the company to the Chief Executive Officer within this framework. The Board is responsible for the appointment, from time to time, of the CEO. It annually reviews the CEO's performance.

The workings of the Board and its code of conduct are governed by the company's constitution, the Crown Research Institute Act, the Statement of Corporate Intent and a Board Manual. This manual sets out all the functions and operating procedures of the Board. The policies approved by the Board clearly set out those matters that only the Board can make decisions on. These include dividend payments, solvency certificates, raising new capital, major borrowings, approval of the annual accounts, appointment of directors to subsidiaries and associates, major capital expenditure and acquisitions.

Each year, the company produces a three year plan, a Statement of Corporate Intent and an operating budget which are reviewed and approved by the Board. Operating and financial statements are prepared monthly and reviewed by the Board progressively through the year to monitor management's performance against the budget and three year plan.

Independent Professional Advice

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertakings to assist in fulfilling their duties and responsibilities as directors.

Director Education

The Board had a budget of \$5,000 to assist directors with the financial costs of attending courses and conferences on governance matters. Directors who attend report back at Board meetings on matters learnt that would improve the governance of the company. The Chairman authorises expenditure from this budget.

Board Membership

The constitution currently sets the size of the Board at a minimum of two directors and a maximum of nine directors. The Board currently consists of the Chairman and six independent directors. Directors are generally appointed for a three year term and may have one reappointment. E Henning and H Webber, accordingly, retired effective 30 June 2003, R Ayling also retired effective 24 July 2003. H Webber was reappointed for a further three years. In addition, effective 1 July 2004, P Andrews was appointed a director as was G Fraser, effective 1 December 2003. The constitution does not permit directors to hold shares in the company.

Director's Meetings

The table below sets out the Board and committee meetings attended by directors during the course of the financial year.

	BOARD OF DIRECTORS		AUDIT AND RISK COMMITTEE	
	Meetings held	Meetings attended	Meetings held	Meetings attended
A Blackburn	11	10	4	4
R Christie	11	11	2	2
R Campbell	11	10		
G Fraser	6	5	2	2
R Manuel	11	9		
H Webber	11	11	4	4
P Andrews	11	10		

Board Committees

The Board has established two standing committees to guide and assist the Board with overseeing certain aspects of Group corporate governance – the Audit and Risk Management Committee and the Remuneration Committee. The Board and each Committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

Audit and Risk Management

The Audit and Risk Management Committee, chaired by Anne Blackburn, with members Rick Christie (replaced by Graham Fraser in February 2004) and Hilary Webber, met four times during the year.

The function of the Audit and Risk Management Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, Public Finance Act 1989 and the Public Audit Act 2001 regarding management's accountancy practices, policies and controls relative to the group's financial position. It is also required to review and make appropriate inquiry into the audits of the group's financial statements by external auditors. This responsibility includes reviewing the scope and quality of the audit. The Audit and Risk Management Committee has the responsibility of monitoring the group's risk management practices and procedures. The group's auditors have direct access to the committee. The Audit and Risk Management Committee approves an internal audit programme each year. The performance of the internal audit is conducted in accordance with the committee's direction by an external provider.

The committee usually invites the CEO and CFO, and internal and external auditors, to attend committee meetings. All directors are entitled to attend if they wish.

The Committee meets at least annually with the external auditors without members of management being present to ensure that there is an opportunity for frank dialogue on the auditors' observations of control and management within the company. This meeting usually follows the review of financial statements by the external auditor.

To the Readers of AgResearch Limited
Financial Statements for the Year Ended 30 June 2004

The Auditor-General is the auditor of AgResearch Limited (the company). The Auditor-General has appointed me, Bruce Taylor, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the company, on his behalf, for the year ended 30 June 2004.

Unqualified Opinion

In our opinion:

- The financial statements of the company on pages 42 to 59:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company's financial position as at 30 June 2004; and
 - the results of its operations and cash flows for the year ended on that date.
- Based on our examination the company kept proper accounting records.

The audit was completed on 30 August 2004, and is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

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

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

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

Responsibilities of the Board of Directors and the Auditor

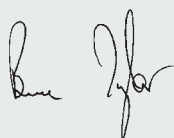
The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company as at 30 June 2004. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992, the Public Finance Act 1989 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001, section 43(1) of the Public Finance Act 1989 and section 21(1) of the Crown Research Institutes Act 1992.

Independence

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

In addition to the audit we have carried out assignments in the areas of internal audit reviews, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company.



Bruce Taylor
Deloitte

**On behalf of the Auditor-General
Hamilton, New Zealand**

To our shareholders and stakeholders

The directors are pleased to report that AgResearch Limited met its obligations under the Crown Research Institutes Act 1992 for the year ended 30 June 2004.

Revenue and Surplus

Total revenue (including interest) was \$134.2 million (all numbers in brackets relate to 2003 unless noted otherwise: \$130.0 million). Net operating surplus before tax was \$6.6 million (\$-2.3 million).

Comparison of Surplus with Statement of Corporate Intent

Net operating surplus after associates and before tax of \$6.6 million was greater than the \$-0.3 million projected in the Statement of Corporate Intent.

Performance Ratios

Net operating surplus before tax represented 4.9% of total revenue (-1.8%). Net operating surplus before tax was 8.5% of average shareholders funds (-0.3%).

Dividends

No dividend was declared or paid during the financial year reported on (\$1.2m).

Capital Structure

Issued and paid-up capital remained unchanged at \$47.1 million. The net surplus (after tax and dividend) of \$4.9m was transferred to retained earnings. This amount, when added to the share of the operating surplus of associated companies and reserves, left total shareholders' funds at \$84.2 million (\$78.1 million). At the end of the financial year, shareholders' funds as a percentage of total assets were 78% (76%).

Directors' Interests

Directors' other business interests at 30 June 2004 are listed on pages 38 and 39 of this report.

The Board received no notices during the year from Directors requesting the use of company information that would not otherwise have been available to them. There were no share dealings by Directors with the company.

Directors' Remuneration

Remuneration and other benefits paid or due and payable to Directors for services as a Director, including membership of Board Committees, during the year were as follows:

	2004	2003		2004	2003
R Christie	\$73,400	\$54,000	P Andrews	\$22,000	\$nil
A Blackburn	\$47,200	\$28,000	G Fraser	\$14,083	\$nil
H Webber	\$34,950	\$25,000	R Ayling	\$nil	\$26,417
R Campbell	\$31,200	\$22,000	E Henning	\$nil	\$25,000
R Manuel	\$22,000	\$21,409			

In addition: \$15,000 was paid to R Campbell for directorship of Ovita Ltd.

Remuneration greater than \$100,000

During the year ended 30 June 2004 62 staff received remuneration of or exceeding \$100,000 per annum as follows:

AgResearch Limited:	Group	Parent	AgResearch Limited:	Group	Parent
\$100,000 to \$109,999	14	10	\$200,000 to \$209,999	2	2
\$110,000 to \$119,999	7	6	\$210,000 to \$219,999	-	-
\$120,000 to \$129,999	6	6	\$220,000 to \$229,999	-	-
\$130,000 to \$139,999	12	10	\$240,000 to \$249,999	-	-
\$140,000 to \$149,999	7	4	\$250,000 to \$259,999	1	-
\$150,000 to \$159,999	5	4	\$260,000 to \$269,999	1	-
\$160,000 to \$169,999	1	1	\$330,000 to \$339,999	1	1
\$170,000 to \$179,999	3	2			
\$180,000 to \$189,999	1	-			
\$190,000 to \$199,999	1	1*			

*CEO

Remuneration included performance awards, superannuation benefits, vehicle benefits and severance payments.

Remuneration above was received by Science (39) Commercialisation (15) and Corporate Staff (8).

Directors' and Employees Indemnity and Insurance

During the year the company indemnified Directors and certain employees to the fullest extent permissible by law. The company also has Directors & Officers insurance.

Auditors

Mr Bruce Taylor of Deloitte is the appointed auditor of the company under contract from the Office of the Controller and Auditor-General, and under Section 21 of the Crown Research Institutes Act 1992.

STATEMENT OF MANAGEMENT for the year ended 30 June 2004

In terms of Section 42 of the Public Finance Act 1989, AgResearch Limited certifies that:

1. The management of AgResearch Limited accepts responsibility for the preparation of the annual financial statements and the judgements used in them;
2. The management of AgResearch Limited accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and
3. In the opinion of the management of AgResearch Limited, the annual financial statements for the financial year ended 30 June 2004 fairly reflect the financial position and operations of AgResearch Limited.



R CHRISTIE Chairman



DR A WEST Chief Executive



A BIRD Chief Financial Officer

Directory

BOARD OF DIRECTORS

Chairman – Rick Christie
Director – Dr Peter Andrews (appointed 01/07/04)
Director – Rob Ayling (ending 24/07/03)
Director – Anne Blackburn
Director – Robin Campbell
Director – Graham Fraser (appointed 01/12/03)
Director – Robyn Manuel
Director – Hilary Webber (reappointed 01/07/03)

EXECUTIVE MANAGEMENT TEAM

Chief Executive – Dr Andrew West

Agriculture and Environment

Science & Technology General Manager – Peter Benfell

Applied Biotechnologies

Science & Technology General Manager – Dr Jimmy Suttie

Food and Health

Science & Technology General Manager – Mark Ward

Science Strategist – Dr Stephen Goldson
General Manager Commercial – Dr Ian Boddy
Chief Financial Officer – Alan Bird
Group Manager Human Resources – Ellen Dunster
Chief Information Officer – Dr Phillip Lindsay
Corporate Affairs Manager – Allannah James
Group Manager Legal – Scott Mataga

AGRESEARCH LIMITED CORPORATE OFFICE

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Grasslands Research Centre
Tennent Drive, Private Bag 11008
Palmerston North
Tel: 64 6 356 8019, Fax: 64 6 351 8032

AGRESEARCH INVERMAY

Invermay Agricultural Centre
Puddle Alley, Private Bag 50034
Mosgiel
Tel: 64 3 489 3809, Fax: 64 3 489 3739

AGRESEARCH LINCOLN

Canterbury Agriculture and Science Centre
Gerald Street, PO Box 60
Lincoln
Tel: 64 3 983 3900, Fax: 64 3 983 3946

AGRESEARCH RUAKURA

Ruakura Research Centre
East Street, Private Bag 3123
Hamilton
Tel: 64 7 856 2836, Fax: 64 7 838 5012

AGRESEARCH WALLACEVILLE

Wallaceville Animal Research Centre
Ward Street, PO Box 40063
Upper Hutt
Tel: 64 4 922 1300, Fax: 64 4 922 1380

AUDITORS

Deloitte

BANKERS

Westpac Banking Corporation

SOLICITORS

Buddle Findlay, Auckland
Patent Attorney, James and Wells, Hamilton