NEW ZEALAND SYNCHROTRON GROUP LIMITED

ANNUAL REPORT 2007

Contents

CHAIRMAN'S REPORT

The board of the New Zealand Synchrotron Group Ltd (NZSG) is very pleased with the outcomes achieved from the first year of operation. The thorough planning that was undertaken prior to the formal incorporation of the company in September 2006 has meant that we have been able to both protect New Zealand's position as a foundation investor in the Australian Synchrotron and to contribute positively to the systems that are being put in place for its operation. In addition, the company now has in place the ability to provide financial support and advice to New Zealand's researchers and expanded the opportunities for them to undertake synchrotron science.

Day to day management of NZSG's activities has been contracted to a secretariat from the Royal Society of New Zealand. The scope of the services provided by the Society includes;

- providing secretariat services to the Board,
- acting on their behalf in governance and access arrangements for the Australian Synchrotron,
- management of the funding support programme for the development of synchrotron science,
- maintaining the company's accounts

Operational funding for the year was provided from interest received on invested money and from a Capability Build grant from the Ministry of Research, Science and Technology. A small surplus of $5,504 after tax has been generated from these operations. It is the board's intention to apply any surpluses generated in future years to maximising support for building capacity and capability in synchrotron science in New Zealand, and to providing financial support for the travel costs of researchers undertaking experiments at the Australian Synchrotron and at other facilities where appropriate, rather than paying a dividend to shareholders.

Because there has been a delay in the establishment of the two companies that will own and operate the Australian Synchrotron, we had not subscribed for shares in the Australian Synchrotron Holding Company prior to balance date. Capital funds received from shareholders have been placed on deposit until the expected subscription date of late October 2007. These funds are held in an Australian currency account, so the company is protected against movements in the exchange rate between receiving funds and subscribing for the shares.

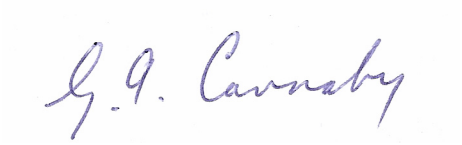
New Zealand's investment in the Australian Synchrotron has received considerable government support. The company was delighted to co-host, with the State of Victoria, a visit by the Prime Minister, Rt Hon Helen Clark to the Synchrotron in June. Her visit generated considerable radio and television coverage, both in Australia and in New Zealand.

The company will be in a strong position in the coming year to fulfil its objectives as a result of an International Development Fund (IDF) grant of almost $0.5 million from the Tertiary Education Commission. This grant has been made to Massey University and has been subcontracted on to NZSG. I would like to record my appreciation to Professor Geoff Jameson for his efforts and dedication in generating support for the concept of a New Zealand Synchrotron Support Programme and in preparing the application.

Thanks are also due to the staff from the Ministry of Research, Science and Technology who negotiated the early arrangements with the State of Victoria, brought together the potential New Zealand shareholders and worked very hard to secure the establishment of the company.

The board has been very well supported by the Royal Society of New Zealand who provide secretariat services to NZSG. In particular, I would like to acknowledge the special contribution make by Don Smith in assisting the board, liaising with the Synchrotron personnel in Australia and setting up the systems to support synchrotron science in New Zealand.

Finally, I would like to thank my fellow directors. We farewelled Professor Tom Barnes in June and welcomed Professor Jim Metson to the board at that time.



GA Carnaby
Chair

BUSINESS REVIEW

Investment in the Australian Synchrotron

Prior to the establishment of the New Zealand Synchrotron Group Ltd, the New Zealand government paid the first instalment of capital funding (A$1.5 million) for the shares in the Australian Synchrotron Holding Company. These funds were placed in trust together with money from other foundation investors and have been used to construct the beamlines.

Both the Australian Synchrotron Holding Company and the Australian Synchrotron Company were established in late June 2007 with the State of Victoria and Monash as initial shareholders. It is expected that the Subscription Agreement between NZSG, the Australian Synchrotron Co and the Australian Synchrotron Holding Company will be signed by 27 October 2007, at which time a further A$2 million will be paid and 5,000,000 partially paid shares will be issued.

The final instalment of A$1.5 million is due 12 months after the subscription date.

Members of the NZSG board have had a direct involvement in advising Major Projects Victoria on matters relating to the construction and establishment of the synchrotron. Dr Carnaby and Professor Jameson both assisted in the process to select a preferred candidate to be the potential Operator of the synchrotron. Professor Jameson was also on a beamline advisory panel and Professor Metson, prior to joining the board, assisted in the development of the Australian and New Zealand Synchrotron-based Science Strategic Plan (known as the Decadal Plan).

The Board has appointed Dr Smith to be its representative on the Australian Synchrotron Company's Council of Members. During the past year he also acted on a committee established to identify potential directors for both the Australian companies.

Access Arrangements to the Australian Synchrotron

The first of the beamlines were successfully commissioned in mid 2007. New Zealand researchers from Massey University and The University of Auckland were invited to undertake some of the commissioning experiments on the protein crystallography beamline.

The Australian Synchrotron has made a call for merit access to the first five beamlines. These were made through the Australian Synchrotron Support Programme (ASRP) with no direct involvement from NZSG apart from promoting the opportunity to apply via our website. This was somewhat premature as only three beamlines may be available for public use. A second call for merit access for the January to April 2008 has also been made and closes on 29 October.

The first opportunities for preferred access will arise from January 2008. Researchers from the company's shareholders will be able to apply for time. Applications will be made through NZSG.

Decisions on Access and Funding Support

The Board has established an Access Committee to make the decisions on applications for preferred time access, funding for synchrotron science or funding support for the costs of travel to synchrotrons. The members of the Committee are:

Professor Geoff Jameson, Massey University (Chair)
Dr Graeme Gainsford, IRL
Associate Professor Peter Metcalf, University of Auckland
Associate Professor Mike Reid, University of Canterbury

The Committee has met once during the year to approve requests for financial support for researchers travelling to undertake experiments at synchrotrons overseas. It will reconvene in late 2007 to consider applications for preferred access time on the Australian Synchrotron and further requests for funding support.

The criteria for selecting proposals is being developed and will be circulated to all shareholders and known interested researchers. Information on accessing support will be placed on the NZSG web site.

Support for Synchrotron Scientists

Assisted by funds from a three year Capability Build grant from the Ministry of Research, Science and Technology, the company has been able to:

- Promote awareness of synchrotron science
- Support researchers attending user workshops
- Support beamline science

A web site has been developed which will be the focal point for researchers and the public to find out about synchrotron science in New Zealand. At present it contains some background information and links to the Australian Synchrotron, but in future it will have news and other public interest articles, information on workshops and seminars, and will be the portal for scientists wishing to obtain access or funding support for their research. The URL is http://www.synchrotron.rsnz.org

Two series of seminars have been held throughout the country by people associated with NZSG. Professor Geoff Jameson of Massey University and Dr Bridget Ingham of IRL gave presentations to raise awareness among their respective research communities.

The company has provided financial support for two people to attend a Users Workshop in Melbourne in November 2006. The two scientists were:

– Dr G Gainsford, IRL

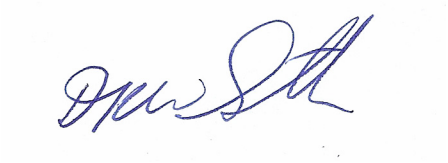
– Associate Professor M Reid, University of Canterbury

In addition, NZSG also contributed funding for part of Professor Jim Metson's costs for participating on the group that developed the Decadal Plan for Synchrotron Science.

Because the Australian Synchrotron is still in its commissioning phase, there have been limited opportunities to provide support to New Zealand researchers wishing to take up beamtime. However, the company has provided funding support for 5 individuals to undertake visits as detailed below.

Date	**Person**	**Activity**
April 2007	Dr Bridget Ingham Scientist IRL	Undertaking experiments on the National Synchrotron Light Source (New York)
June 2007	Dr Gregory Sawyer Postdoctoral Fellow Massey University	Undertaking commissioning experiments on the Australian Synchrotron
June 2007	Gillian Norris PhD student Massey University	Undertaking commissioning experiments on the Australian Synchrotron
June 2007	Dr Tom Caradoc-Davies Postdoctoral Fellow University of Auckland	Undertaking commissioning experiments on the Australian Synchrotron
June 2007	Ghader Bashiri PhD student University of Auckland	Undertaking commissioning experiments on the Australian Synchrotron

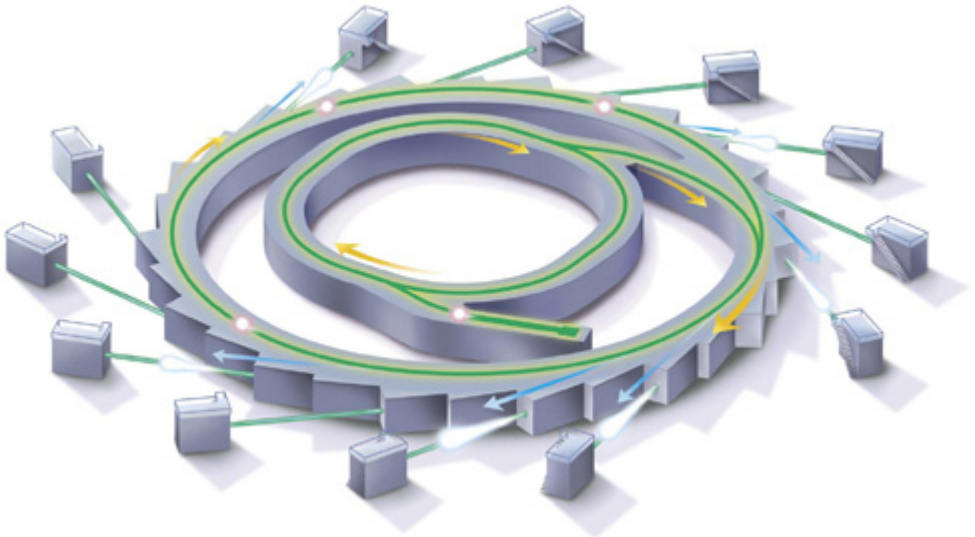
With the securing of additional funds from the IDF grant, there will be considerably greater opportunities to provide financial support for synchrotron science in the coming year. As this coincides with the commissioning of more beamlines at the Australian Synchrotron, it is expected that a strong focus will be on enabling scientists to undertake experiments there, but there will also be the opportunity to support experiments at other sites where they cannot be undertaken at the Synchrotron, and to enable new users to attend "summer schools" in synchrotron science.



D K W Smith
Executive Officer
Secretariat

Australian Synchrotron

Synchrotrons are multi-functional, multi-user large-scale facilities that are core platforms for science and technology. They provide an extremely intense, tuneable source of electromagnetic radiation (via "beamlines"), with diverse applications in the medical, biological, physical and materials sciences.



The Australian synchrotron is a third-generation, 3.0 GeV facility, 76 m in diameter; the building is about the size of an Aussie Rules football field. The linear accelerator (Linac) and booster ring accelerate bunches of electrons to 99.99% of the speed of light (3.0 GeV). The electrons are delivered to the storage ring, where New Zealand-made magnets guide the electrons in their orbit. Wherever magnets bend the path of the electrons, very intense polychromatic electromagnetic radiation ("light") is produced. Additional magnets inserted in the storage ring, insertion devices called undulators and wigglers, cause the light intensity to be increased by more than 4 orders of magnitude. The beam of light is conditioned by the **beamlines** and delivered to the **experimental or end stations** where the actual experiments are conducted. First light has been achieved at the Australian Synchrotron, two beamlines have been commissioned, a further two will be commissioned in 2007 and five in 2008, spanning hard X-rays to infra-red radiation. The project is on time and on budget. The beamlines and the science that can be delivered from each is summarised below.

- Protein crystallography beamlines (2): Structure of proteins, drug-protein/RNA interactions leading to structure-based drug design. Also small-molecule and protein crystallography on very small crystals (1-5 microns).
- Powder diffraction: structure of minerals and small molecules, changes in structure as functions of temperature, pressure and time to nano-second time scales; applications in food industry, as well as minerals and materials science.
- SAXS and WAXS (small-angle and wide-angle X-ray scattering): respectively, long-range order and short-range order, applications to food textures, nanoscience, assemblies of molecules.
- X-ray absorption spectroscopy (2 beamlines): chemical and spatial environment around absorbing atoms; speciation of elements – important for materials science, nanoscience, soil and mineral characterisation, element-specific

microscopy to nanometre resolution, bioavailability, uptake and speciation of elements and ions within cells.

- Soft X-ray photoelectron spectroscopy: surface analysis, e.g. coatings, movement of elements between bulk and surface phases.
- Infra red spectroscopy and imaging: Probing biological molecules in cells, finger-printing applications in forensics to materials for the electronics industry.
- X-ray imaging: taking advantage of highly collimated beam, phase contrast methods lead to high-resolution high-contrast imaging of hard and soft tissues; monitoring biological process on 0.5-50 s time scales.

Future developments include taking advantage of the ***pulsed*** nature of the light delivered down each beamline to the experimental end-station. This allows the interactions of light with matter to be examined in the fourth dimension of time, with time resolution from seconds down to the picosecond level, allowing movies to be made to better understand biological processes (e.g. breathing) and chemical and biological processes (e.g. bond breaking, protein fluctuations, etc.).

The New Zealand Synchrotron Group Ltd is one of 10 foundation investors, each of whom is contributing A$5 million for the beamlines. This investment secures preferred access rights for New Zealand researchers to time on all the beamlines.

CORPORATE GOVERNANCE

Board Composition

The company operates with a board comprising of 5 directors, including an independent chairman. The initial directors were appointed when the company was established. In accordance with the Participants' Agreement, elections were held in April 2007 to select directors to replace the Interim Board.

The Directors during the period up to 30 June 2007 were:

Dr Garth Carnaby, Chair *(from 13 September 2006)*
Professor Thomas Barnes, The University of Auckland *(from 13 September 2006 to 16 May 2007)*
Dr Desmond Darby, GNS Science *(from 13 September 2006)*
Professor Geoffrey Jameson, Massey University *(from 13 September 2006)*
Professor James Metson, The University of Auckland *(from 16 May 2007)*
Professor Ian Shaw, University of Canterbury *(from 13 September 2006)*

Interests Register

There were no entries made in the Interests Register during the period from establishment to 30 June 2007. Since that date Dr Carnaby has advised the company of his appointment to the Boards of the Australian Synchrotron Company Limited and the Australian Synchrotron Holding Company Pty Limited.

During the course of undertaking its normal business activities in supporting the development of synchrotron science, the company provides assistance towards the travel costs for research staff from its shareholders. The practice at meetings of the board is for directors from organisations who are receiving financial support to declare an interest and to refrain from voting on that particular matter. During the period up to 30 June 2007 support was provided to staff from The University of Auckland and Massey University.

Indemnities and Insurance

The Board has taken Directors and Officers Liability Insurance with Lumley General Insurance Limited. Coverage of up to $5 million has been obtained.

Attendance at Board Meetings

The following table shows the attendance at meetings of the Board for each director and the fees paid.

Director	No. meetings held during tenure	No. meetings attended	Fees paid
Dr Garth Carnaby	7	7	$6,500
Dr Thomas Barnes	6	5	-
Dr Desmond Darby	7	7	-
Professor Geoffrey Jameson	7	6	-
Professor James Metson	2	2	-
Professor Ian Shaw	7	7	-

Donations

The company did not make any donations during the period from establishment up to 30 June 2007.

FINANCIAL STATEMENTS

Audit Report

PRICEWATERHOUSECOOPERS

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Auditors' Report

to the readers of New Zealand Synchrotron Group Limited's financial statements for the period ended 30 June 2007

The Auditor-General is the auditor of New Zealand Synchrotron Group Limited ("the Company"). The Auditor-General has appointed me, John Meehan, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Company, on his behalf, for the period ended 30 June 2007

Unqualified Opinion

In our opinion:

- The financial statements of the Company on pages 1 to 8:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Company's financial position as at 30 June 2007; and
    - the results of its operations for the period ended on that date.

The audit was completed on 18 October 2007 and is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

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

Audit procedures generally include:

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

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

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

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Company as at 30 June 2007. They must also fairly reflect the results of its operations for the period ended on that date.

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.

Independence

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

Other than the audit, we have no relationship with or interests in the Company.

John Meehan
PricewaterhouseCoopers
On behalf of the Auditor-General
Wellington, New Zealand

Financial Performance

New Zealand SYNCHROTRON Group Limited

Statement of Financial Performance
for the period ended 30 June 2007

	Note	30-Jun-07
Income		**$**
MoRST fees		88,414
Interest		57,766
Operating Income		**146,180**
Expenditure		
Audit fees		7,717
Travel costs		16,396
Insurance		2,995
Legal		4,070
Consultants		4,100
Personnel		68,625
Foreign exchange losses		34,062
Operating Expenditure		**137,965**
Net surplus before tax		**8,215**
Income tax		2,711
Net surplus after tax		**5,504**

Statement of Movements in Equity
for the period ended 30 June 2007

	Note	30-Jun-07
		$
Equity at the beginning of the year		-
Capital contribution from shareholders		2,513,147
Net surplus for the year		5,504
Total equity at the end of the year		**2,518,651**

These statements are to be read in conjunction with the notes on pages 14 to 17.

Statement of Financial Position
as at 30 June 2007

	Note	30-Jun-07
Current assets		$
Bank call accounts	2	1,813,918
Accounts receivable	3	1,977,802
Current tax receivable		17,672
Total current assets		3,809,392
Non-current assets		
Deposit for ASHC shares held in trust	4	1,650,347
Total non-current assets		1,650,347
Total assets		5,459,739
Current liabilities		
Accounts payable and accrued expenses		38,914
Income in advance		11,142
Total current liabilities		50,056
Non-current liabilities		
Crown advance - 5 million ASHC shares	5	2,891,032
Total non-current liabilities		2,891,032
Total liabilities		2,941,088
Net assets		**$2,518,651**
Equity		
Share capital	6	2,513,147
Retained surplus		5,504
Total Equity		**$2,518,651**

The Board of the New Zealand Synchrotron Group Ltd authorised these financial statements for issue on 9 October 2007.

Garth Carnaby
Chairperson

Dr Don Smith
RSNZ Secretariat

This statement is to be read in conjunction with the notes on pages 14 to 17.

Notes to the Financial Statements for the period ended 30 June 2007

Note 1. Statement of accounting policies

Entity reporting
The financial statements for New Zealand Synchrotron Group Limited as a separate legal entity.

Statutory base
New Zealand Synchrotron Group Limited (NZSG) is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

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

Company operations
NZSG was formed on 13 September 2006. It has 10 shareholders who are all either New Zealand universities or Crown Research Institutes. The company is managed by a five person board elected by the shareholders, including an independent Chair. The Chair receives remuneration; the other directors do not. The Royal Society of New Zealand has been contracted to provide secretariat services to the Board.

The purpose of the Company is to invest in the Australian Synchrotron by subscribing to shares in the Australian Synchrotron Holding Company Pty Limited (ASHC) and being a member of the Australian Synchrotron Company Limited. In addition, the Company also promotes synchrotron science, assists the development of capability of New Zealand researchers in synchrotron science and manages the access of New Zealand researchers to the Australian Synchrotron.

The Company's revenue consists of grants from government agencies to build awareness and capability in synchrotron science and investment income.

Auditor
The auditor whose report is referred to in these financial statements is John Meehan assisted by PricewaterhouseCoopers, acting as agent on behalf of the Office of the Auditor-General. His address for service is PricewaterhouseCoopers, 113-119 The Terrace, Wellington, New Zealand.

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

The Company is a qualifying entity within the *Framework for Differential Reporting.* The Company qualifies on the basis that it is not publicly accountable and the Company is not large, as defined in Differential Reporting Framework. The Company has taken advantage of all differential reporting concessions available to it except for FRS19 *Accounting for Goods and Services Tax*, with which they have complied fully.

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

Revenue
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.

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 determined using tax rules.

Goods and Services Tax (GST)
The Statement of Financial Performance has 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
The functional currency of the Company, and these financial statements, is the New Zealand dollar as both the administration of the Company and all of the shareholders are domiciled in New Zealand.

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date the transaction is settled. Monetary assets and liabilities arising from trading transactions or overseas borrowings that remain unsettled at balance date are translated at closing rates.

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

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

Income in advance
Income that has been received but for which the obligations have not yet been discharged is recorded in the Statement of Financial Position as income in advance.

Operational funding
The Company is committed to provide operational funding to the ASHC from 1 January 2008 for a period of 5 years. As part of a Participant's Agreement with the shareholders of the Company this will be provided by the shareholders at the time it is required. This is recognised in the Statement of Financial Performance as an expense and in the Statement of Financial Position as shareholder contributions in the period these costs are incurred.

Cash
Cash is considered to be cash on hand and cash held in current accounts.

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.

Changes in accounting policies
The have been no changes in the accounting policies during the period.

Note 2. Cash and bank

	30-Jun-07 $
Bank accounts - NZD	33,284
Bank accounts - AUD	1,780,634
	1,813,918

All the bank balances are held with a single counterparty (Bank of New Zealand).

Note 3. Accounts receivable

The accounts receivable consists of capital payments due from 10 shareholders.

	30-Jun-07 $
Accounts receivable	1,975,234
Sundry receivables	2,568
Less: Provision for doubtful debts	-
Net accounts receivable	1,977,802

Note 4. Non-current assets	30-Jun-07 $
Deposit on shares in ASHC	1,650,347

An amount equivalent to A$0.30 per share, on 5,000,000 shares, was advanced by the Crown to a trust account on behalf of New Zealand SYNCHROTRON Group Ltd for the purpose of purchasing shares in ASHC.

Note 5. Non-current liabilities	30-Jun-07 $
Crown advance for 5 million ASHC shares	2,891,032

As part of a funding agreement with the Crown, the Company receives partial funding for its investment in the Australian Synchrotron Holding Company from the Ministry of Research Science and Technology (MoRST). The funding is provided on the condition that it is used for the purpose of investing in the Australian Synchrotron Holding Company and is repayable to MoRST if the investment does not eventuate. These advances are held as liabilities in the Statement of Financial Position until the purchase of the ASHC shares has been completed.

Note 6. Share capital

The 10 shareholders of NZSG and their value of shareholdings at 30 June are :	30-Jun-07 $
University of Auckland	486,266
University of Waikato	181,777
Massey University	409,012
Victoria University of Wellington	227,240
University of Canterbury	272,676
Lincoln University	27,270
Otago University	272,676
Agresearch	272,676
Institute Geological and Nuclear Sciences	181,777
NZ Institute for Crop and Food Research Ltd	181,777
	2,513,147

The shares were issued to all shareholders on 13 September 2006, but were only partly paid. The amount recognised in the balance sheet as paid in capital is the New Zealand dollar amount invoiced and received by the Company for the portion that has been called. The uncalled portion has also been recognised at the Australian Dollar value outstanding, translated at the closing rate.

7. Subsequent events

On or before 27 October 2007 the Company will purchase 5 million shares in the Australian Synchrotron Holdings Company. These shares will be paid to A$0.70 per share, with the remaining A$0.30 per share payable on or about 28 February 2008, or when called by the Australian Synchrotron Holding Company.

8. Commitments

From 1 January 2008 the Company is contractually committed to provide ongoing operational funding for the Australian Synchrotron project for 5 years. As part of the Participant's agreement entered into with the 10 shareholders these funds will be received directly from the shareholders when required to fulfil these obligations. The result is a net nil outflow of funds from the Company.