AWTA Ltd

AWTA Ltd *annual review 2002–2003*

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«financial summary» «chairman's statement» «managing director's review»
«year in review» «directors' report» «financial statements»





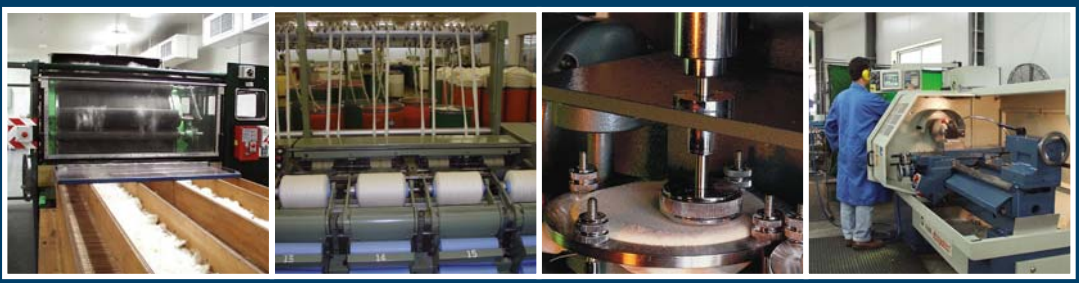
AWTA Ltd *services*

WOOL GROWERS

WOOL BROKERS

PRIVATE TREATY WOOL MERCHANTS

WOOL EXPORTERS



WOOL SCOURERS & CARBONISERS

WOOL PROCESSORS

TEXTILE TRADE

RESEARCH ORGANISATIONS

ANNUAL REVIEW *contents*

MISSION *vision & values*

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Registered Office
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Fremantle Laboratory
Lot 100 Sudlow Road, Bibra Lake, WA 6163
PO Box 1546, Bibra Lake, WA 6965
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Textile Testing Division
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Mission

To assist or promote the development of the pastoral, agricultural, manufacturing and industrial resources of Australia, in particular, by providing independent objective data and information services which will facilitate the efficient production, marketing and processing of wool, other fibres, textile products and related materials.

Vision

To be, and be recognised as, the world leader in raw wool testing, and to improve the Company's competitiveness in the provision of all other services, by being the most technologically advanced, cost-effective and responsive service provider.

Values

- Providing staff with the knowledge, skills and equipment to improve customer service and lower costs.
- To ensure commercial independence in all activities.
- To maintain technical excellence, by taking maximum advantage of emerging technologies and activities.
- To insist upon professional integrity within the Company, by remaining impartial and avoiding conflicts of interest.
- To be alert and responsive, by monitoring and understanding the changing needs of clients.
- To ensure that a reliable business continuity plan is in place, to minimise disruption to the wool marketing processes in the event of a disaster.
- To foster sound industrial relations, based on mutual respect and recognition of the common interests, which are shared with all employees and managerial staff.
- To provide a safe and satisfying working environment, which encourages employee participation and is supported by appropriate training and development programmes.
- To meet all legal and moral obligations expected of a good corporate citizen.
- To adopt business strategies which transfer cost saving benefits arising from the Company's income tax exemption, so as to assist or promote the development of the relevant industry resources of Australia.

HISTORY & OBJECTIVES

The Australian Wool Testing Authority was established in 1957 by the Commonwealth Government in response to requests from the Australian Wool Industry, and was created as a Statutory Authority reporting to the Minister for Primary Industry. The first meeting of the Authority was held on 12th December 1957.

Following the formation of the Australian Wool Board in 1962, AWTA was established as a separate division within that organisation on the 1st July 1963. AWTA retained the same status within the Australian Wool Corporation when it was formed by the amalgamation of the Australian Wool Board and the Australian Wool Commission on 1st January 1973.

AWTA Ltd was established as a Company Limited by Guarantee on the 14th May 1982 consequent to an Australian Government decision to transfer the functions of the statutory Australian Wool Testing Authority (AWTA) to the public sector. After almost 25 years of operations, the government and industry considered that there was no on going requirement for AWTA to continue to have links with the government, particularly since it was controlled by the wool industry and funded by the commercial services it provided to the industry not by the Government or any levies.

In April 1982, the same wool industry interests that comprised AWTA as a statutory body formed a public company limited by guarantee, to acquire all assets and liabilities of the statutory body.

AWTA Ltd commenced operations on 1st July 1982, when it took over all the previous functions of AWTA.

The objectives for which the Company was established and are enshrined in its Memorandum.

AWTA LIMITED

*AWTA Ltd servicing the **Wool** and **Textile Industries***

1957 – 2003

They include the following:

1. To promote sales of Australian wool by encouraging the growth and utilisation of objective measurement of wool, particularly by presale testing.
2. To test wool and other fibres, whether natural or otherwise, and wool products and similar products made wholly or partly from other fibres.
3. To provide an accurate and impartial testing service based upon internationally recognised testing standards as an aid to efficient wool marketing.
4. To conduct wool, fibre and textile research and/or to carry out tests on other materials and products where such activities assist or promote the development of the pastoral, agricultural, manufacturing or industrial resources of Australia.
5. To maximise the net income of the Australian wool industry by encouraging the optimum application of objective measurement of wool by wool growers, brokers, buyers and both local and overseas processors.
6. To optimise wool industry productivity through research and the implementation of new systems and technology.
7. To establish, equip and maintain laboratories, workshops and other places suitable for testing and research activities.
8. To provide and encourage the provision of data processing services aimed at the more efficient marketing of wool.
9. Generally to promote and foster the more efficient testing of wool as required by the wool and textile industry at a minimum cost.
10. To provide certificates and make reports in respect of test and research carried out by the Authority.

COMPANY *profile*

Membership & Board Composition

AWTA Ltd is a Company Limited by Guarantee. As described in the Company's Articles of Association, each Member Guarantor is entitled to appoint a Director to the Board. Additionally, the Member Guarantors appoint two Independent Directors and may also appoint a Director having special scientific and/or technological qualifications. The Chief Executive is also a Director pursuant to Article 21(d).

The following organisations or their nominees are the Member/Guarantors constituting the Company:

- Australian Council of Wool Exporters Inc (ACWE Inc)
- Australian Wool Processors Council Inc (AWPC Inc)
  - Wool Scourers & Carbonisers of Australia Group (WSCA Group)
  - Wool Textile Manufacturers of Australia Group (WTMA Group)
- Australian Wool Innovation Ltd (AWI)
- Private Treaty Wool Merchants of Australia Inc (PTWMA Inc)
- The National Council of Wool Selling Brokers of Australia Ltd (NCWSBA Ltd)
- WoolProducers

Note: *Australian Wool Processors Council Inc, being an amalgamation of 2 previously separate Member Guarantors, is entitled to appoint 2 Directors, one from each Group.*

Directors

Directors holding office at the date of this Report are:

Chairman

A. G. McGregor, AO	(elected Independent Director)

Deputy Chairman

D. G. McGauchie	(elected Independent Director)
M. A. Jackson	(AWTA Ltd Managing Director)
R. M. Ryan	(appointed by NCWSBA Ltd)
J. H. Lillie	(appointed by ACWE Inc)
J. B. Robinson	(appointed by AWPC Inc from WSCA Group)
R. W. Amos	(appointed by PTWMA Inc)
John Lewis	(appointed by AWPC from WTMA Group)
B. P. van Rooyen	(appointed by AWI Ltd)
S. H. Campbell	(nominee of WoolProducers)

Profiles on each of the directors are provided in the Directors' Report (page 40).

Company Secretary

The Company Secretary is Mr C. Englander (General Counsel).

Management

The Board delegates responsibility for the operation and administration of the Company to the Managing Director who, together with the executive team, is accountable to the Board.

Senior executives, their staff and technical specialists in Head Office support the Managing Director.

AWTA Ltd is organised for management and reporting purposes into functional units. Management responsible for those units must account for their performance within a framework of Strategic Plans, Budgets, Position Descriptions, targets, standards and policies. Two key committees co-ordinate management activity and formulate policy:

- Executive Committee
- Strategy Committee

Membership of these Committees is indicated on the Organisation and Reporting Structure.

Stakeholders

AWTA Ltd's stakeholders are its customers, employees and suppliers. In the main its customers are drawn from all sectors of the wool and textile pipeline and their peak councils are Member Guarantors of the Company.

Services are tailored to specific customer needs and evolve as these needs change. In the raw wool area the customer profile in 2002/03 remained largely unchanged from the previous year, with continued industry rationalisation occurring in all sections of the wool trade. However, the continuing expansion of the Textiles Testing Division into provision of commercial automotive testing services to Australia's car manufacturers and their suppliers, is producing a significant change in the customer profile for this Division. It is anticipated that growth in these new services will continue in 2003/04 (page 34).

Organisation & Reporting Structure

Managing Director
Michael Jackson

General Counsel & Company Secretary
Charles Englander

National Technical Advisor
Jim Marler

General Manager Corporate Services
Alex Artomonow

- **National Information Services Manager –** Ray Duncan
- **Accounting Manager –** Andrea Hogan
- **Divisional Manager Textiles –** Bob Doyle

General Manager Laboratory Operations
Georg Beilharz

- **Senior Manager Sydney Laboratory –** Angus Ireland
  - **Data Processing Operations Manager NSW/QLD –** Michael Powell
  - **Technical Manager SYDNEY –** David Petrie
- **Senior Manager Fremantle Laboratory –** Paul Walsh
  - **Data Processing Operations Manager WA –** Dave Parham
  - **Technical Manager FREMANTLE –** Rodney Barry
- **Laboratory Production Manager VIC/TAS –** Rod Agar
- **Data Processing Operations Manager VIC/TAS –** John Billing
- **Technical Manager VIC/TAS – Vacant**

General Manager Customer Relations
Ian Ashman

- **Sampling Operations Manager VIC/TAS –** Tim Steere
- **Sampling Operations Manager NSW/QLD –** Andrew Lindsay
- **Sampling Operations Manager WA –** Colin Biddiscombe
- **Sampling Operations Manager SA –** Rick Stadler

Corporate Development Manager
Peter Sommerville

- **Research Manager –** Trevor Mahar
- **Engineering Manager –** Chris Ruberg

Strategy Committee Members
Executive Committee Members

CORPORATE *governance*

Corporate Governance Charter

During 2002/03 the Board reviewed the Company's Corporate Governance practices and in December 2002 it formally adopted a "Corporate Governance Charter and Guide for Directors and Officers" (Chairman's Statement, page 10). This document is publically available on the Company's website.

Because AWTA Ltd is not listed on the Australian Stock Exchange (ASX) it is not subject to its requirements. Nevertheless the ASX's Principles of Good Corporate Governance and Best Practice Recommendations are followed where they are applicable.

Compensation & Remuneration

Non-executive Directors

The Company's Memorandum of Association provides that, whilst its income cannot be transferred by way of dividend or bonus, it can be used for payment in good faith to any officer or servant of the Company (including Directors) for any services actually rendered to the Company.

Non-executive Directors' fees are reviewed annually by the Member Guarantors having regard to performance, relevant comparative remuneration and independent advice.

Non-executive Directors may receive a Sitting Fee for Committee participation and reimbursement of travel and accommodation expenses for attendance at Board and other official Company Meetings.

Independent Directors only are entitled to retirement benefits, as determined by the Member Guarantors.

Executive Director & Senior Executives

The Board determines the remuneration for the Chief Executive Officer (Managing Director), General Manager Corporate Services, General Manager Laboratory Operations and General Manager Customer Relations, upon the recommendation of its Remuneration & Appointments Committee. Remuneration is decided following an annual review that considers performance, relevant comparative remuneration and independent advice.

Remuneration & Appointments Committee

Current members of the Remuneration & Appointments Committee are Mr A. G. McGregor AO (Committee Chairman), Mr D. G. McGauchie and Mr B. P. van Rooyen. The Managing Director attends the Committee Meeting except when his own remuneration and employment conditions are being considered.

Director's attendance at Committee meetings is reported in the Directors' Report (page 40).

Risk Management & Internal Controls

The Board and Management are responsible for setting and maintaining measures for the management of risk across the business.

Cash management and financial instruments are managed through policies, procedures and limits that are subject to internal and external review.

Audit Committee

An Audit Committee assists in the execution of the Board's responsibilities. Current members of this Committee are Mr A. G. McGregor (Committee Chairman) and Mr. D. G. McGauchie. Attendance at Committee meetings is reported in the Directors' Report (page 40). The Managing Director, General Manager Corporate Services and the Accounting Manager are attendees at Committee meetings, although the Auditor is invited to raise any issues with the Committee without management present.

Ethical Standards

The Company recognises that it is vital to its continuing success that its staff maintains the highest possible reputation for technical expertise, commercial efficiency, impartiality, independence and professional integrity. To ensure that they are aware of this, and also to protect the Company's intellectual property, each staff employee is required to read and sign the Company's Corporate Conduct & Ethics Policy. This policy reflects AWTA Ltd's corporate "conscience" and promotes the highest levels of behaviour.

Environment & Safety

The Company's operations are subject to particular and significant environmental and occupational health and safety regulations under State and Commonwealth laws. Environmental regulations, which bear on the Company's activities include:

- discharges to sewer;
- discharges to atmosphere; and
- quarantine regulations.

Refer to Environmental Impacts (page 36), and to the Directors' Report, Environmental Issues (page 43) for specific details on these activities during 2002/03.

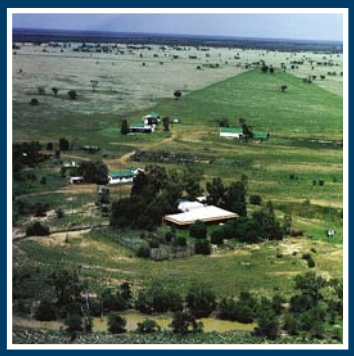
Safety issues are regulated under the relevant Occupational Health & Safety Acts and Workers Compensation Acts of the separate states. A review of performance is provided on page 36.

Environment & Safety Committee

The Board has established an Environment & Safety Committee, which ensures that the environmental and safety management system requirements, including policies relating the Company's obligations with respect to environmental, health and safety issues, are established, implemented and maintained.

Current members of this Committee are Mr J. B. Robinson (Committee Chairman), Mr J. H. Lillie, Mr M. A. Jackson and Mr C. Englander. Attendance at Committee meetings is reported in the Directors' Report (page 40).

As Board meetings are held at all laboratory centres at least once per year, the Committee meets contiguously with Board meetings, and therefore has the opportunity to conduct local inspections and to consider issues specific to the centre which relate to its brief.



FINANCIAL *summary*

Profit & Loss Statement for the Year Ended 30th June 2003

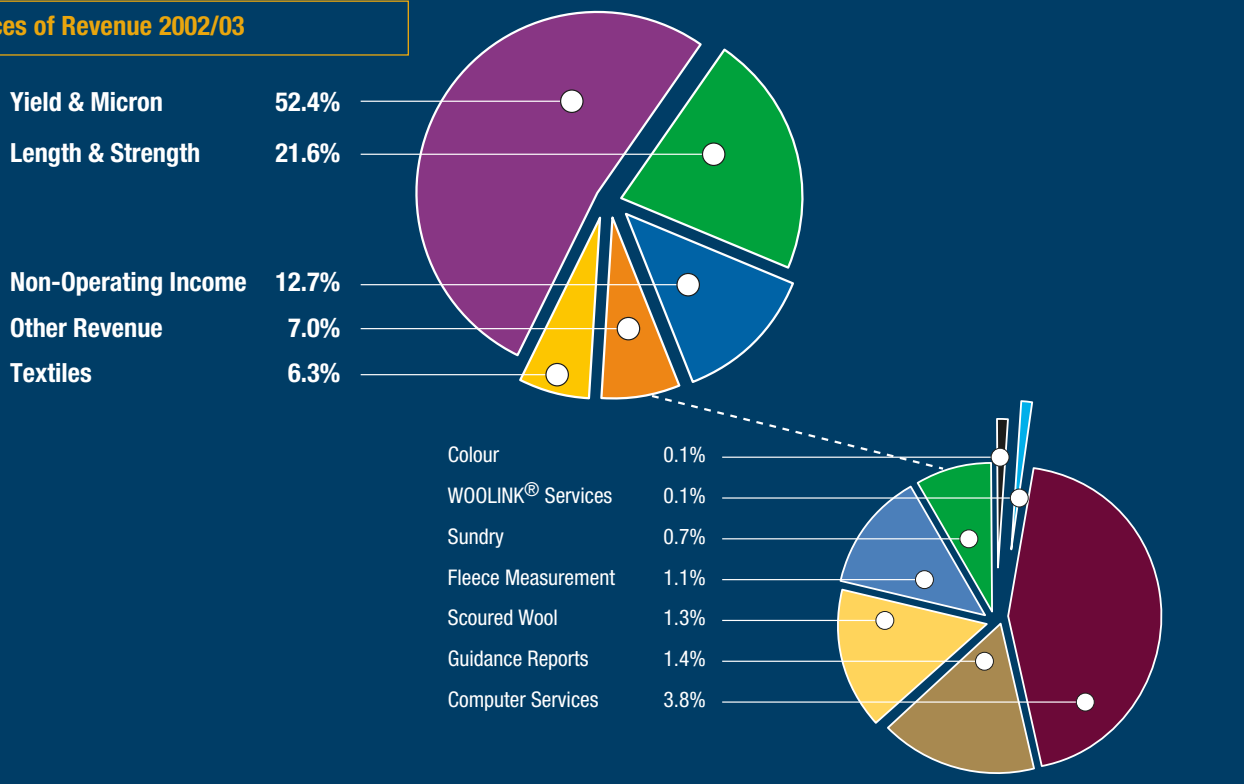
	2003 $'000	2002 $'000	2001 $'000	2000 $'000	1999 $'000
Revenue from Operations					
Testing Revenue	31,676	32,425	38,840	37,928	35,335
Profit on Sale of Surplus Sample Material	1,289	1,403	1,200	1,015	1,153
	32,965	33,828	40,040	38,943	36,488
Less Expenses	37,039	39,084	41,684	38,755	38,675
Profit (Loss) on Operations	(4,074)	(5,256)	(1,644)	188	(2,187)
Plus Other Revenue					
Interest on Investments	1,977	1,803	2,413	1,935	1,692
Profit on the Sale of Fremantle Premises	1,557	–	–	–	–
Other Income	264	1,685	2,707	467	162
Operating Profit (Loss)	(276)	(1,768)	3,476	2,590	(333)
Plus (Less) Extraordinary Items	–	–	–	–	–
Operating Profit (Loss)	(276)	(1,768)	3,476	2,590	(333)

Balance Sheet as at 30th June 2003

Members Equity					
Capital Maintenance Reserve	45,000	45,000	45,000	45,000	45,000
Revaluation Reserve	13,723	10,319	10,319	4,823	4,823
Retained Profits	18,347	15,762	17,530	14,054	11,464
TOTAL MEMBERS EQUITY	77,070	71,081	72,849	63,877	61,287
This is represented by:					
Current Assets					
Cash & Short Term Deposits	43,740	37,694	44,127	38,862	34,736
Trade & Sundry Debtors	2,223	2,408	3,057	3,605	2,924
Stock of Supplies & Spare Parts	1,325	1,694	1,729	1,121	1,118
Property	807	4,320	–	–	–
Other Current Assets	789	686	(67)	(83)	186
TOTAL CURRENT ASSETS	48,884	46,802	48,846	43,505	38,964
Less Current Liabilities					
Trade Creditors	1,819	2,230	2,166	1,943	1,334
Provision for Employee Entitlements	4,641	5,006	5,520	4,635	3,793
TOTAL CURRENT LIABILITIES	6,460	7,236	7,686	6,578	5,127
WORKING CAPITAL	42,424	39,566	41,160	36,927	33,837
Plus Non-Current Assets					
Property, Plant & Equipment	67,541	62,769	60,322	54,060	51,934
Less Provision for Depreciation	31,743	30,830	27,760	25,536	22,430
	35,798	31,939	32,562	28,524	29,504
Other Non-Current Assets	–	–	–	–	44
TOTAL NON-CURRENT ASSETS	35,798	31,939	32,562	28,524	29,548
Less Non-Current Liabilities					
Provision for Employee Entitlements	1,152	424	873	1,574	2,098
NET ASSETS	77,070	71,081	72,849	63,877	61,287

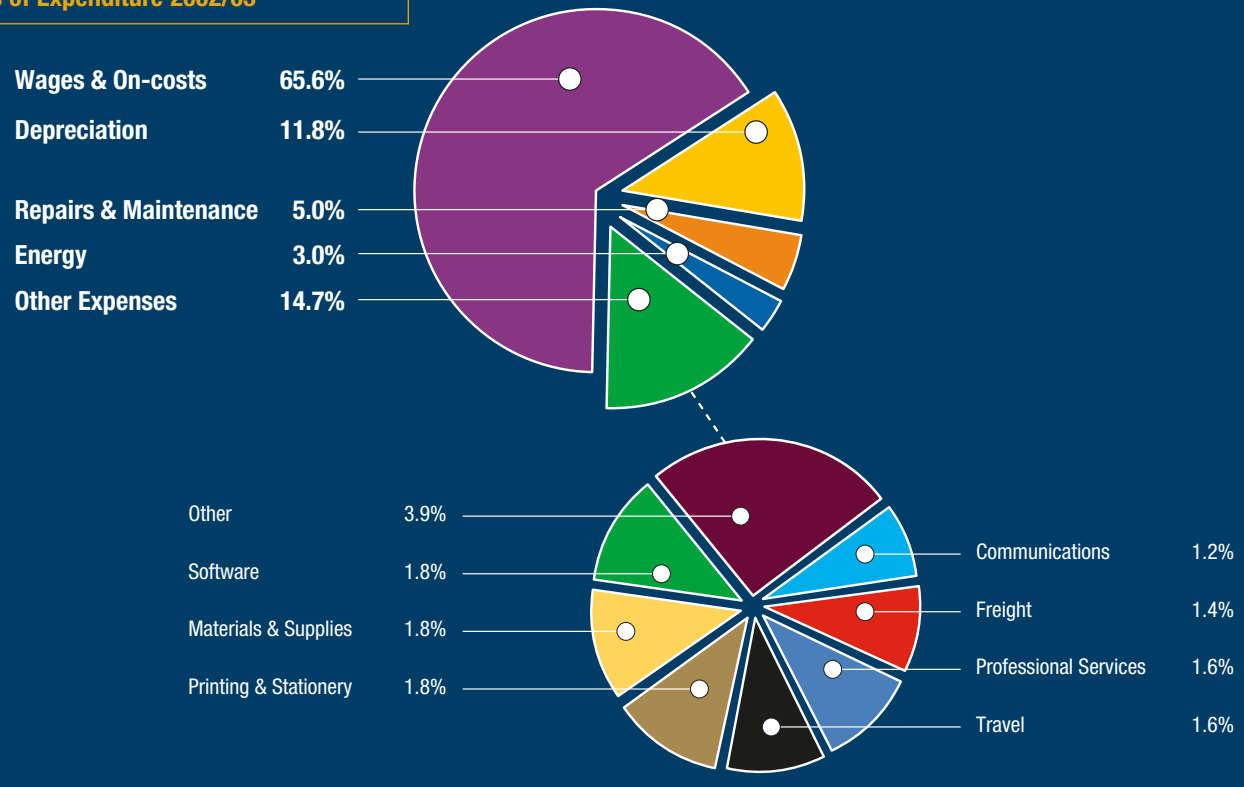
The movement of reserves has been influenced by significant property sales during 2002/03. For further information refer to the Directors' Report.

Sources of Revenue 2002/03



The above pie chart represents a breakdown of Other Revenue

Areas of Expenditure 2002/03



The above pie chart represents a breakdown of Other Expenses

CHAIRMAN'S *statement*

During 2002/03 the ongoing impact of the drought has resulted in AWTA Ltd testing volumes falling by more than 12%. This was the third consecutive year of significant reductions in workload, with testing volumes falling by over 11% in 2001/02 and 8% in 2000/01. Accordingly, the Company has maintained its focus on cost control to offset reduced revenue.

Key events involving the Board and/or the Members during the 2002/03 financial year included:

- the impact of the continuing decline in wool production caused by the severe drought experienced widely across Australia during the year;
- the decision to maintain raw wool test fees at 2002/03 levels during 2003/04;
- the sale of the former site of the Fremantle Laboratory and the subdivision of excess land at Bibra Lake;
- the development of a test for contamination of merino wool by pigmented and medullated fibres due to contact with imported sheep breeds;
- the adoption of a Corporate Governance Charter and Guide for Directors and Officers; and
- the appointment of two new Directors.

While agricultural producers and the companies that service them have learned to cope with fluctuations in seasonal conditions, the drought that gripped the country during 2002/03 was the most widespread and possibly the most severe in its overall effects for more than a century. As a direct consequence, wool production declined with the volume tested by AWTA Ltd falling from 572 million kilograms in 2001/02 to 501 million kilograms in 2002/03. The impact of the decline during 2002/03 did not significantly affect the Company until the second half of the season. At the end of December, the volume tested was only 8 million kilograms less than the same period in 2001/02; by the end of June, it was 71 million kilograms less.

In partial anticipation of reducing volumes, AWTA Ltd had increased its fees at the start of 2002/03 and hence the operating revenue of the Company has only fallen by 2.3% during 2002/03 despite the larger fall in testing volumes. At the same time, despite wage rates increasing, operating expenditure was reduced by 3.3% as the Company adjusted its staffing levels in line with the lower workload.

The relocation of the Fremantle Laboratory to a new facility at Bibra Lake was followed in October 2002 by the sale of the vacated premises for a price well above expectations. AWTA Ltd has now sub-divided the excess land at Bibra Lake and will commence to market these blocks in 2003/04.

The profit from the sale of the Fremantle premises offset the significantly reduced workload and helped to contain the net loss for the year to $0.3 million, compared to a loss of $1.8 million in the previous year. Directors consider that this result is satisfactory given the dramatic decline in workload.

Although further reductions in workload are expected in 2003/04, the Board accepted a recommendation from management that AWTA Ltd's testing fees be held at 2002/03 levels for 2003/04. This decision is entirely consistent with the Company's long standing policy of providing its services to wool industry customers at minimum cost. AWTA Ltd's structure as a Public Company Limited by Guarantee provides it with the unique ability to utilise its unappropriated profits for this purpose. While clients continuously benefit from this policy, the benefits are perhaps most visible when many growers are suffering from drought and low supply is negatively impacting upon other sectors in the wool industry. In deciding not to increase testing fees, the Board anticipates a further loss during 2003/04.

In this environment, the Company's first priority will continue to be to improve efficiency at all levels of its operations. The previous success of this strategy is evidenced by the fact that over the past 10 years AWTA Ltd's fee for testing a 7-bale lot for Yield & Micron and Staple Length & Strength has fallen by 12% while inflation has increased by 31%.

The Board has also encouraged and supported management in its introduction in March 2003 of a new service to test for dark and medullated fibre contamination of merino wool. This service, based on the CSIRO Dark Fibre Detector, tests for contamination arising from contact of merinos with certain exotic sheep breeds. It does not test for traditional sources of dark fibre, such as urine stained fibre that may be unevenly distributed in the bale. Consequently, the Company has successfully encouraged the industry to also adopt the Dark Fibre Risk Scheme developed by CSIRO during the 1980's. The Federation of Australian Wool Organisations (FAWO) is currently being funded by Australian Wool Innovation Ltd (AWI) to evaluate the potential benefits of this scheme and to identify the infrastructure changes required for its implementation. In the meantime, although AWI is also funding projects to develop improved testing technologies, the Board is supporting management's efforts, using the resources available in its Research & Development Division, to improve the existing technology and reduce the cost of the current service.

During 2002/03 the Board has reviewed the Company's Corporate Governance practices and in December 2002 it formally adopted a "Corporate Governance Charter and Guide for Directors and Officers". The initial impetus to produce this Charter was provided by the former Deputy Managing Director, Mr Sas Douglas, shortly before his retirement and before recent public attention on the need for good governance practices. In accordance with current views of corporate governance, the Board fine-tuned the membership of the Audit Committee, so that it is only comprised of Independent Directors, and the Remuneration & Appointments Committee so that only Non-Executive Directors are members of it. The Charter is posted on the Company's website.

In October 2002, Mr Graeme Ostini resigned as Director nominated by the Private Treaty Wool Merchants of Australian Inc after completing his 3-year term. Mr Bob Amos, the Managing Director of Adelaide Wool Company Pty Ltd became the new Director.

"...the drought that gripped the country during 2002/03 was the most widespread and possibly the most severe in its overall effects for more than a century."

Alan McGregor AO – Chairman

In February 2003, Australian Wool Innovation Limited appointed Mr Brian van Rooyen as its nominee Director on AWTA Ltd's Board, replacing Mr David Webster. Consequently, Mr van Rooyen resigned as the nominee Director of the Australian Wool Processors Council Inc (Wool Textile Manufacturers of Australia Group) and it nominated Mr John Lewis, Managing Director of Macquarie Textiles Holdings Pty Ltd, to replace him.

I welcome both new Directors and thank the retiring Directors for their valued contributions during their terms of office.

The continuing fall in wool production that has occurred since 1992/93 has been exacerbated by drought over the past two years and it is evident that this impact will continue through this year. However, it was promising to note an increase in wool production in Western Australia last year, where the drought was not as widespread. Providing the drought breaks in the eastern states, and present indications provide some ground for cautious optimism in this regard, post 2003/04 may see a stabilisation or increase in production levels.

Finally, I wish to express my thanks to current Directors and the Company's employees for their support, contribution and dedicated service during 2002/03.

MANAGING DIRECTOR'S *review*

Overview of Performance

In the 2002/03 financial year, AWTA Ltd recorded a Net Loss of $0.276 million compared with a Net Loss of $1.768 million in 2001/02. The budget projected a profit of $0.039 million, on the assumption that workload would decrease compared with the previous year and after the implementation of fee increases and the investment of surplus funds in industry projects.

It eventuated that workload actually fell substantially more than budgeted due to wool production levels falling as a result of the severe and widespread drought. Consequently, the Company's revenue was well below that predicted in the budgeting process. This shortfall was offset by significant cost reductions and the sale price achieved for premises previously owned by the Company in South Fremantle significantly exceeding budget.

Key performance indices for AWTA Ltd's services for the 12 months ending 30 June are compared against the previous year in the accompanying graphs.

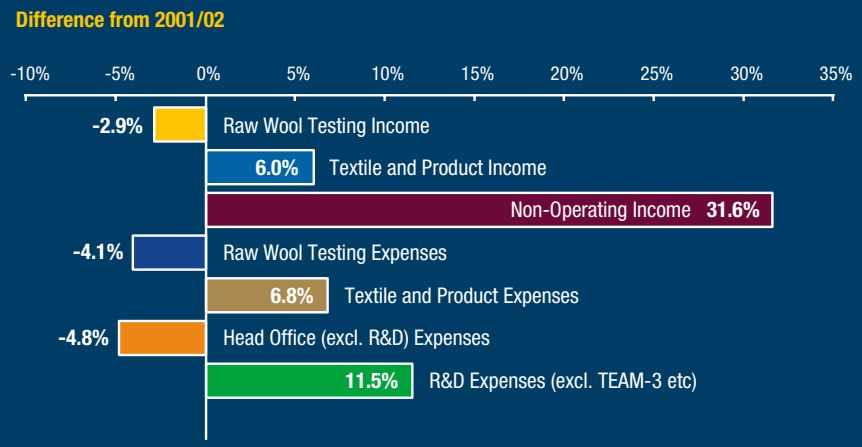
The total number of presale bales sampled in 2002/03 decreased by 12.2% in comparison to 2001/02. The average number of bales in each presale test decreased marginally from 5.94 in 2001/02 to 5.86 bales in 2002/03. Hence, the fall in Presale Yield & Diameter tests conducted, while still significant at 11.0%, was slightly less than the reduction in the number of bales sampled.

The number of Staple Length & Strength tests conducted was also negatively affected by the fall in wool production. However, in response to continued market demand for objective Staple Length & Strength information, the proportion of Presale Yield & Diameter tests that were also tested for Staple Length & Strength increased by 1.5%. Therefore, the number of Staple Length & Strength tests fell by 9.1%, which is less than the fall in Presale Yield & Micron tests.

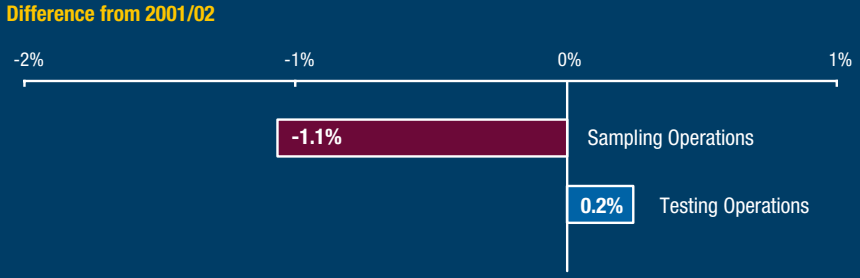
Offsetting the reduced workload, average fee increases of approximately 11% for each Presale Yield & Micron test and approximately 6% for each Staple Length & Strength test were implemented on 1st July 2002. Hence, the reduction in Raw Wool Testing Income was contained to 2.9%. Compared to the budget, Raw Wool Testing Income was down by 7.4%.

Textile and Product Income increased by 6.0% compared to 2002/03 principally due to significant growth in testing for the automotive parts and technical textiles industries.

Income & Expenses



Minutes per Test



"...a productivity increase of 1.1% was achieved in Sampling Operations and in Testing Operations, where the majority of labour is employed, productivity was within 0.2% of last year."

Michael Jackson – Managing Director

The number of Fleece Tests declined by 26.6%, after 3 years of exceptional increases. The price premium for fine wool had been a factor driving the increased use of Fleece Tests provided by both AWTA Ltd and other service providers. This premium collapsed during 2002/03. Consequently, the Fleece Testing market as a whole has contracted.

Non-Operating Income increased substantially (31.6%), following a decrease of 17.6% in 2001/02. This was principally due to the sale price achieved for the South Fremantle premises exceeding budget and also increasing the amount of funds available for investment. Income received from the sale of surplus sample material decreased due to a decline in the volume of wool available for sale. In recent years, significant Non-Operating Income has been received from the sale of Laserscan instruments. During 2002/03, only 6 machines were sold compared to 18 in the previous year and income from that source has reduced accordingly.

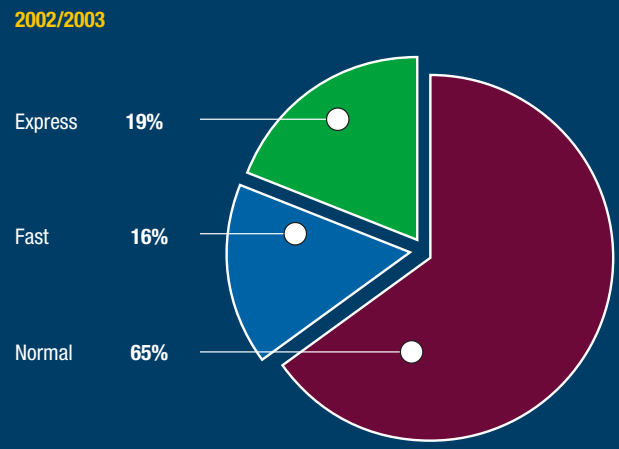
As a service provider, the largest single area of expenditure for AWTA Ltd has always been costs associated with the employment of staff. As wages and salaries rise, continual improvement in labour productivity is a key to the Company's ability to control costs and minimise testing fees. When workload is reducing, it is more difficult to increase overall productivity, as fixed or overhead labour hours must be spread over fewer tests. Despite this, during 2002/03, a productivity increase of 1.1% was achieved in Sampling Operations and in Testing Operations, where the majority of labour is employed, productivity was within 0.2% of last year. From a management perspective, the efficiency of operations is monitored using variable manhours productivity (i.e. excluding fixed or overhead hours), as this is more independent of workload. During 2002/03, this measure actually increased by 2.0% in Sampling and 3.7% in Testing Operations.

Further commentary regarding productivity improvement is included in the Testing Operations section of this report (page 24).

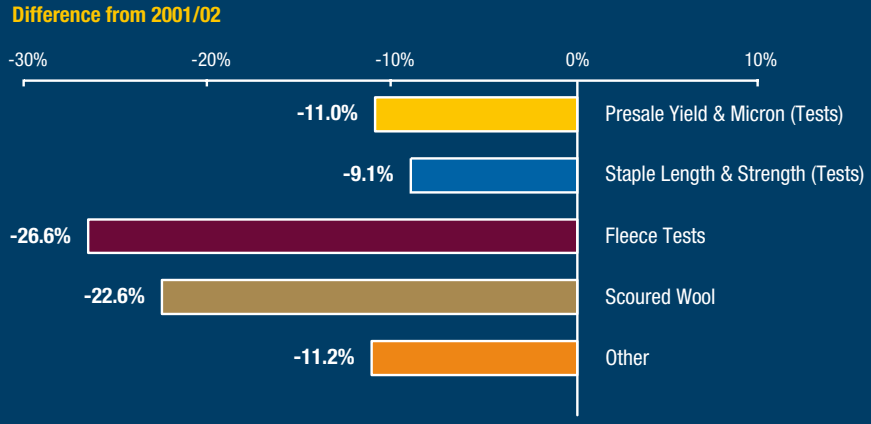
AWTA Ltd provides 3 service options for Presale Yield & Micron and Staple Length & Strength testing, which can be selected as and when required. Normal Service is designed to complete the test within 5 working days of the date the sample is taken, while Fast Service and Express Service provide 95% turnaround within 3 working days and overnight, respectively.

During 2002/03, the 2 faster services constituted 35% of the total Presale Yield & Micron workload, compared to 31% in the previous year. A more detailed discussion of service performance is provided later in this review on page 25.

Presale Yield & Micron Service Commitments



Workload



International Activities

IWTO provides an international forum for the wool industry to establish standard specifications for the testing and specification of greasy wool, scoured wool, wool top, yarn and fabrics. In addition to this very important role, IWTO also provides a forum for establishing Commercial Regulations for the application of the Test Specifications and Arbitration Agreements to facilitate the resolution of disputes between trading partners.

International Wool Textile Organisation (IWTO)

During 2002/03 the Company presented a number of Technical Reports to IWTO, which included the following:

- two reports updating the industry on the progress of data collection and preliminary analyses with respect to the TEAM-3 project;
- the measurement of IWTO-19 ash content by Near Infrared Reflectance (NIR) analysis;
- the measurement of dichloromethane (DCM) extractable matter content of commercially scoured wool samples by NIR technology;
- the examination of decrimped staple length to differentiate atypical wool types and as a potential aid to predicting processing performance, with specific reference to the non-fleece wool processing trial project; and
- in collaboration with the other Independent Laboratories Round Trials Group (ILRT) members, two reports have been presented detailing laboratory performance in round trials.

With respect to submissions to change existing Test Methods and Regulations or develop new Test Methods the Company:

- successfully proposed amendments to IWTO-10, Method for the Determination of Dichloromethane Soluble Matter in Combed Wool and Commercially Scoured or Carbonised Wool, to accommodate NIR technology;
- proposed amendments, which were accepted, to the IWTO Core Test Regulations to include references to IWTO-10;
- in collaboration with SGS Wool Testing Services New Zealand, proposed changes, which were accepted, to the yield Test Method to permit the use of NIR technology to measure the ash content of laboratory scoured wool core samples; and
- submitted a proposal, which was subsequently accepted, to change the reporting requirements of staple measurement position of break parameters from the nearest 5% level to the nearest 1% level.

In addition to the two TEAM-3 Technical Reports, the Company has continued to provide updates on TEAM-3 to the commercial delegates of IWTO through presentations to the Growers, Traders and Early Stage Processors Committee at each meeting.

The Company also provided significant resources to the IWTO Colour Working Group, which was formed to resolve a small between-laboratories bias in New Zealand that was claimed to be a consequence of deficiencies in the Colour Test Method, IWTO-56. The Working Group successfully tightened the specifications in IWTO-56 and proposed changes to IWTO-35, Method for the Measurement of Colour of Sliver, to bring it in line with the IWTO-56 Method. The proposed changes to both Test Methods were accepted.

Western Europe

En-route to the November 2002 IWTO Meeting in Nice the National Technical Advisor and the Managing Director visited various wool industry organisations in Italy, France and Germany.

The ongoing commitment to ensure European traders and processors are advised in advance of the details of Technical Reports to be presented to IWTO was maintained. Those who have attended have appreciated the meetings with the Industry Associations. During the visits, meetings with individual traders and processors were also held, outside the industry association meetings, to discuss the TEAM-3 reports and other topical issues.

En-route to the May 2003 IWTO Congress in Buenos Aires the National Technical Advisor visited various wool industry organisations in Italy, France and Germany. As had occurred in November, the meetings with the Industry Associations were well received. The clear commitment from the Company to continue the meetings, despite the IWTO Meeting being held in the southern hemisphere, was both acknowledged and appreciated. All associations encouraged the Company to continue the process. A number of meetings with individual traders and processors were also held outside of the industry association meetings.

Following on directly from the discussions and advice regarding IWTO procedural details that were provided during the meeting in Biella, the Italian National Committee successfully proposed the formation of two new IWTO Technical Working Groups at the Buenos Aires IWTO Congress.

China

The Managing Director and the General Manager Customer Relations, accompanied by ACIL Consultant Mr Robert Wang, visited China in October 2002.

Activities undertaken included:

- visits to seven worsted mills to discuss TEAM-3 and certification issues;
- presentation of a paper at the China International Wool Textile Conference in Shanghai on the subject of new developments in wool testing;
- attendance at the Nanjing Wool Conference held in Ningbo, and presentation of a workshop for Chinese mills on testing and certification;
- meetings in Beijing, Shanghai and Nanjing with Chinese inspection authorities, China Commodities Inspection Corporation (CCIC) and China Inspection & Quarantine Bureau (CIQ). Issues discussed included mandatory re-inspection, testing standards and possible co-operative trials between Chinese laboratories and AWTA Ltd, New Zealand Wool Testing Authority Ltd and Wool Testing Bureau, South Africa;
- meetings with major Chinese wool importers, Australian government officials and local representatives of The Woolmark Company on wool testing issues.

Mr Wang continues to be contracted to work for AWTA Ltd on matters relating to translation of AWTA Ltd information and important contact with Chinese TEAM-3 participants. Mr Wang has recently relocated to Shanghai from Melbourne, which will provide a broader scope for liaison with Chinese customers on AWTA Ltd issues.

Other Overseas Liaison

- The National Technical Advisor visited India in December 2002 to participate as a presenter in The Woolmark Training Programme. The Training Programme, which ran over three days, attracted 64 participants covering all sectors of the Indian Industry from raw wool importing and trading through to spinning, weaving and retail. Papers were presented covering raw wool testing, AWTA Ltd Certification and IWTO.
- En-route to IWTO in May 2003, the Managing Director visited the INTA Laboratory in San Carlos de Bariloche to inspect the laboratory's yield testing laboratory and to have discussions with the new management team regarding the options for rejoining the ILRT program as a Second Series laboratory. In addition, the opportunity was taken to visit SUL and LATU in Uruguay where similar discussions were held.
- Similarly, in November 2002, the Managing Director visited Thailand en-route to IWTO to meet with a major wool processor that has participated in the TEAM-3 project.

New Initiatives

Exotic Fibres

Australian merino wool is conspicuously free of coloured and medullated fibres compared to wool from many other countries and breeds, and commands a price premium because of this. The concern of Australian wool producers and their customers that the relatively recently introduced "exotic" breeds, such as Dorpers, Awassi and Damaras which shed fibre, may contaminate Merino wool and put this reputation at risk has heightened. During 2002/03, AWTA Ltd has taken the following initiatives to help protect this reputation.

Contamination of merino wool by imported non-merino breeds can occur by contact with the rams during mating, contact with the lambs and by running the breeds together.

New testing service for dark & medullated fibre contamination

In March 2003 the Company introduced a screening test based on a manually operated technology originally developed by CSIRO for measuring contamination in wool tops. Research conducted jointly by AWTA Ltd's Research & Development Division and the South Australian Research & Development Institute (SARDI) had demonstrated that in the specific instance of contamination arising from contact of merinos with "exotic" sheep, this could be detected using this technology to measure contamination in core samples taken from contaminated farm lots. This testing service is highly labour intensive and therefore expensive, but at least wool growers now have access to a test that screens for possible contamination originating from contact with "exotic" sheep breeds.

Dark Fibre Risk Scheme

During the 1980's CSIRO developed a Dark Fibre Risk Scheme to provide wool buyers and processors with information concerning the level of risk of contamination. This relies on wool producers providing correct information about their animal husbandry and wool management practices, from which a level of increasing risk (on a scale of 1-5) can be derived. The industry had not implemented this scheme. AWTA Ltd took a proactive role in encouraging the industry, through the Federation of Australian Wool Organisations, to take steps to implement the scheme. FAWO has obtained funding from Australian Wool Innovation Ltd (AWI) for a project to progress this implementation. The Company is actively participating in this project.

Further Research & Development

Utilising a work-experience engineering student, and other resources within its Research & Development Division, the Company has been exploring ways to reduce the cost of the manual dark fibre testing service it introduced in March 2003. The objective of this work is simply to reduce the labour input by improving the sample preparation and presentation in the current manual system. It is expected that such incremental improvements to the existing technology can be developed relatively quickly, instead of waiting on new technology to reduce costs.

Support for AWI projects

In 2001/02 AWTA Ltd, together with CSIRO and SARDI, applied for funding from AWI to develop an automated test. Subsequently AWI invited interest from other research groups and is now funding 3 projects. AWTA Ltd is liaising closely with AWI, particularly with respect to specifying those features any new technology should incorporate to facilitate its implementation in a commercial wool testing environment.

Premium Testing

During 2002/03, AWTA Ltd introduced a Premium Micron Test in response to the request from some wool growers, particularly those that grow high value wools, for an even more precise test for fibre diameter than the IWTO standard test method.

The fact that the Company now routinely uses Laserscan for measuring fibre diameter enables extra testing to be conducted to provide an improvement in precision of approximately 20% for a relatively modest additional fee.

It is anticipated that the demand for the Premium Micron Test will primarily come from specialist superfine growers where, traditionally, price is extremely sensitive to small changes in fibre diameter. Essentially, this test will enable growers to better manage their price risk.

AWTA Ltd's Premium Micron Service enables growers to better manage their price risk.

TEAM-3

The original Trials Evaluating Additional Measurements, known as the TEAM-1 and TEAM-2 projects were conducted in the 1980's. They showed that the then new measurements of Staple Length and Staple Strength could be used to predict the processing performance of wool, and in particular the Mean Hauteur of wool top. Prediction formulae, known as the TEAM Formulae, were published in 1988 and have been increasingly used by the industry since then.

Due to a shortage of industry funds, research to improve upon the prediction formulae had been left to individual topmakers and their customers. In 2001/02, AWTA Ltd committed $0.500 million to initiate the TEAM-3 project. Invitations were sent to selected mills asking them to participate in this industry project. The response was extremely positive, and AWTA Ltd was able to launch TEAM-3 at the IWTO Congress in Shanghai in May 2001.

Since that time, 36 topmakers or combing mills have accepted AWTA Ltd's invitation to participate in the TEAM-3 project and a database of more than 500 consignments, matching raw wool characteristics with subsequent processing results, has already been compiled. Preliminary analyses have been reported to IWTO at its meetings since Shanghai, showing the improvements in processing performance that had been achieved since the late 1980's. It is now anticipated that during 2004 a final analysis, including any recommendations will be reported to IWTO which will be responsible for accepting any improvements to the TEAM Formulae resulting from the project.

It is expected that the TEAM-3 project will deliver the following benefits to the industry:

- rapid and efficient evaluation of the influence of the new measured parameters on processing performance;
- identification of potential improvements to processing prediction, through incorporation of the latest objective measurements in the TEAM formulae;
- updating of the TEAM-2 formulae, published in 1988, to reflect modern processing equipment and mill techniques;
- quantification of the magnitude of improvement in processing performance since the TEAM benchmark was first published; and
- analysis of core/comb comparisons, including a review of the Estimated Commercial Top & Noil Yield calculations prescribed by IWTO and, in particular, the Processing Allowances applied.

Non-fleece Wool Processing Prediction

Experience has shown that current Staple Length & Strength measurements of non-fleece wool types, particularly "bellies" wool or mixed length pieces do not predict the processing performance as well as they do for fleece wools. In conjunction with exporters from the northern region, AWTA Ltd commenced funding an industry project to evaluate potential improvements in this area during 2001/02 and this activity has accelerated during 2002/03.

To date, pilot scale processing of 250 display samples of individual farm lots that were nominated by the trade has been completed. A preliminary analysis of the results of this trial was reported to the IWTO Buenos Aires Congress in May 2003. A total of approximately 300 display samples will be processed as part of this trial, and it is anticipated that the trial will be completed and publicly reported during 2003/04. This work is being co-ordinated by the Research & Development Division of AWTA Ltd.

New Western Australian Laboratory

In August 2002 the Chairman officially opened the new $6 million laboratory facilities in Bibra Lake WA. The Laboratory first became operational from June 2002, and represents the most modern wool testing facility in the world.

After the opening of the new Laboratory in WA at Bibra Lake, AWTA Ltd's Chairman, Mr Alan McGregor AO congratulates Senior Laboratory Manager, Mr Paul Walsh who successfully managed this complex project.

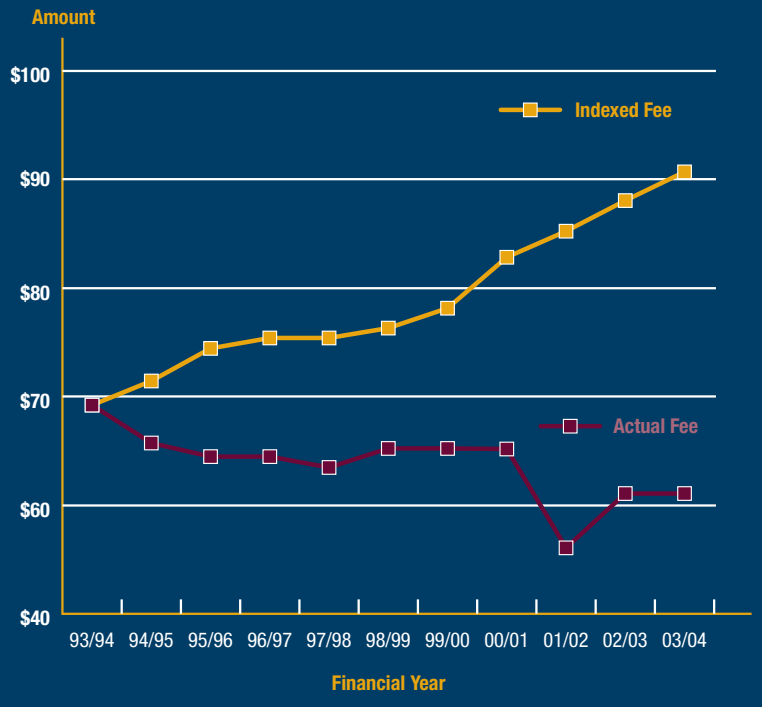
Outlook for 2003/04

For the 2003/04 season, AWTA Ltd maintained its Raw Wool testing fees at 2002/03 levels, despite anticipating further drought related falls in wool production.

In so doing, the Company has accepted that a Net Loss is likely to result in 2003/04. Through setting fees to achieve this result, the Company is maintaining its policy of providing its services to the wool industry at minimum cost. The chart (see below) shows the overall downward trend in testing fees over the last decade.

The budget for 2003/04 was formulated in an environment where it was very difficult to confidently estimate future wool production levels. While AWTA Ltd budgeted for a further fall in the coming season, the ongoing effects of the drought may lead to wool production falling more than predicted. In this environment, the Company will continue to focus on achieving further improvements in efficiency to control costs and counter potential revenue shortfalls. Specific details about planning in this regard are included in the Year in Review section of this report (page 18).

Inflation Adjusted vs Actual Fee Increases
Presale Yield & Micron and Length & Strength for a 7-bale Lot



AWTA Ltd's testing fees have fallen over the past 10 years, a period where wool production has been trending downward. This has been achieved by more efficient data handling systems, capital investment in improved technology in the Laboratories, and a focus on better employee management.

Top 15 File Downloads

from www.awta.com.au

1. **Testing The Wool Clip**
2. **Textile Testing Product Notes**
3. **Fibre Medullation, Micron, Marketing and Management**, S. Hatcher, NSW Agriculture, Orange Agricultural Institute, 2002
4. **Key Test Data Reports**
5. **Understanding Fibre Diameter Measurement - Fundamental Concepts**, P. J. Sommerville, AWTA Ltd Newsletter, January 2002
6. **Preliminary Analysis of TEAM-3 Database**, A. R. Lindsay, J. W. Marler & M. A. Jackson, Report RWG 04, Technology & Standards Committee, Raw Wool Group, Barcelona Meeting, May 2002
7. **Fibre Curvature Morphometry and Measurement**, V. E. Fish, T. J. Mahar & B. J.Crook, Report CTF01, Commercial Technology Forum, IWTO, Nice Meeting, November/December 1999
8. **Technologies for Measuring the Fineness of Wool Fibres**, P. J. Sommerville, AWTA Ltd Newsletter, September 2001
9. **Textile Testing Fees**
10. **AWTA Ltd Newsletters**
11. **Measuring Microns – Different Methods can mean Different Results**, AWTA Ltd Fact Sheet No. 3
12. **Textile Testing Newsletters**
13. **The Effect of Between Fibre Coefficient of Variation on the Fibre Fineness Measured by Airflow**, P. J. Sommerville, Report 14, Technology & Standards Committee, IWTO, Boston Meeting, May 1997
14. **TEAM-3 Processing Trial - May 2003 Update**, TEAM-3 Steering Committee, Report CTF 04, Technology & Standards Committee, Commercial Technology Forum, Buenos Aires Meeting, May 2003
15. **Fundamental Principles of Fibre Fineness Measurement: the Airflow Instrument**, P. J. Sommerville, Report CTF03, Commercial Technology Forum, IWTO, Nice Meeting, December 1998

Corporate Communications

Management

AWTA Ltd is a key service provider to the Australian Wool Industry, and day-to-day communications with stakeholders by all management staff is an essential part of their role.

Formal communications are broadly segmented into two functional areas: publications and client liaison.

Publications are the responsibility of the Corporate Development Manager, Mr Peter Sommerville. As well as printed matter, publications includes advertising, electronic newsletters and the Company's website.

Client liaison within Australia is the responsibility of the General Manager Customer Relations, Mr Ian Ashman.

International liaison activities are conducted by a number of the senior executive staff whenever they travel overseas. Activities in this area have been covered in the Managing Director's Review (page 14).

Publications

The Company's printed promotional material, includes regular newsletters, fees lists, annual reviews, brochures, press releases and other special technical publications.

Material printed during 2002/03 included:

- 3 Newsletters;
- 2001/02 Annual Review;
- Raw Wool Fees Lists for 2003/04;
- Textiles Fees Lists for 2003/04;
- Brochures on Dark Fibre Testing and the Premium Micron Test;
- Static displays promoting Length & Strength Testing and Dark Fibre Testing;
- 2003/04 AWTA Ltd Diary; and
- 5 Press Releases.

All printed material (excluding the diary) converted to electronic format, as well as a wide range of other material, available only in electronic format, is placed on the Company's website (http://www.awta.com.au).

The website consists of two sections – one for raw wool and a separate section within the existing site for the Textile Testing Division with the same look and feel but with a distinctly different colour scheme.

During 2002/03 the Corporate Section of the website was updated to include the Company's Memorandum and Articles of Association. These are also available in PDF format.

The Textiles Testing Division pages (http://www.awta.com.au/textiles) have been expanded to include material relating to automotive testing services now being provided by the Division (page 34).

The total volume of files, mostly in PDF format, downloaded from the site more than tripled – increasing from 5.1 gigabytes to 17 gigabytes. The nature of the files downloaded suggests that a significant proportion is for educational purposes. However, the number of unique visitors to the site declined from 65,000 to 28,000.

The Company also distributes a monthly (or as needed) email newsletter to a large number of subscribers. In general this advises of wool testing trends, new material available on the website, and other appropriate industry news.

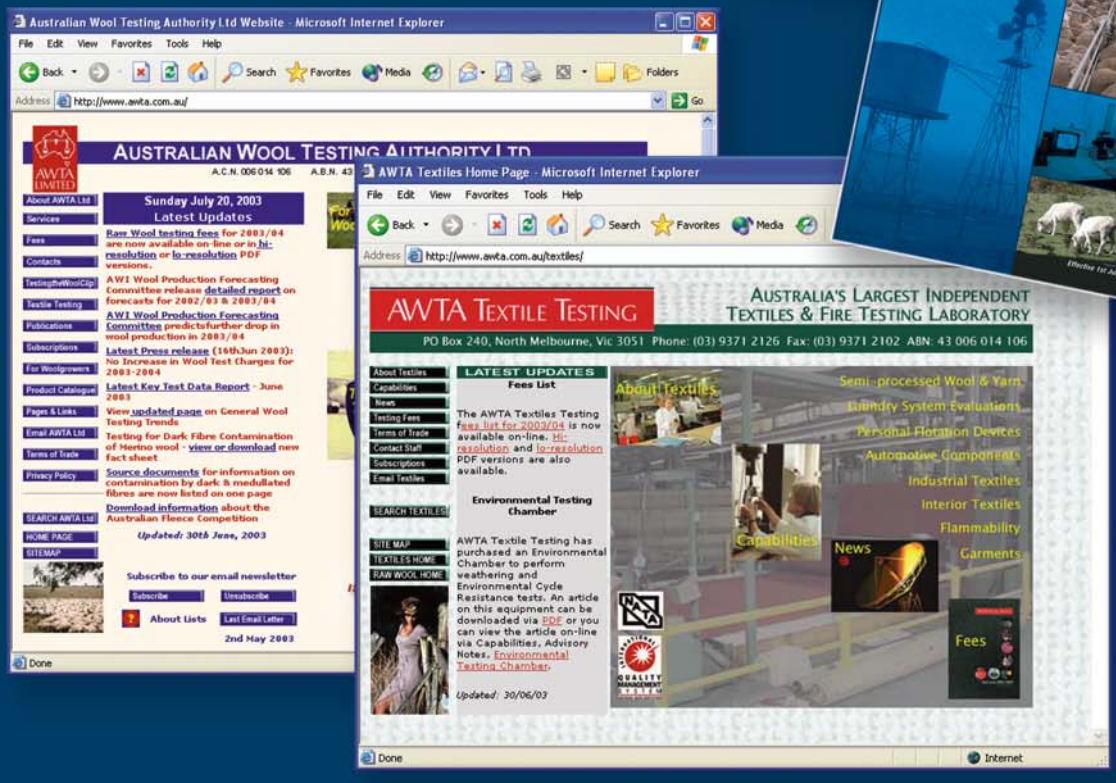
It is anticipated that Corporate Communications will be increasingly focussed on the website, and less on printed material. The rate of progress is of course dependent upon accessibility to the Internet within rural Australia.

Newsletters

Annual Review

Raw Wool Fees List

AWTA Ltd Website



AWTA Textile Testing Website

Client Liaison & Promotional Activities

AWTA Ltd's client liaison and promotional activities strongly focus on the use and extension of objective measurements – by growers, by traders and by mills throughout the world.

Within Australia, AWTA Ltd has a strong commitment to support rural and regional events that wish to use and promote objective measurements to improve the industry.

During 2002/03 AWTA Ltd provided financial support or in-kind assistance to the following events:

Ram Sales & Field Days

Dubbo
Katanning
Riverina
Karoonda
Campbell Town
Goulburn
South West Slopes
Dowerin
Parndana
WA SMBA
Great Southern Sheep Breeders Association
Narrogin
Kangaroo Island
Newdegate
Mudgee
Gippsland SMBA
VSMBA Multi-Vendor Sales
Elmore Field Days
SARDI Merino Demonstration Flock
Midstate Merinos, Dubbo
Wool Expo, Armidale

Inspecting rams at Ram Sales.

Inspecting rams at Ram Sales.

Shows

Bendigo Sheep & Wool Show
Castlemaine Elite Fleece Competition
Sydney Royal Easter Show
Royal Perth Show
Royal Melbourne Show
Royal Adelaide Show
Brisbane Exhibition
Wagin Woolorama
Hamilton Sheepvention
QLD State Sheep Show
Tambo Stock Show
McKinnon Project - World's Finest Ram
Ermenegildo Zegna 'Vellus Aureum' Award
Dirranbandi
Rocklea

Conferences

WoolProducers
Victorian Farmers' Federation
NSW Farmers' Association
WA Farmers' Federation
Pastoralists' & Graziers' Association of WA
Tasmanian Farmers & Graziers Association
WA Superfine Wool Growers Association
Stud Merino Breeders Association WA

In addition to these events, AWTA Ltd staff participated in numerous seminars and other meetings with wool growers, brokers, merchants and exporters throughout Australia.

Many customers took the opportunity through the year to take a guided tour of the AWTA Ltd laboratory facilities in Melbourne, Sydney and especially the new laboratory in Bibra Lake WA.

Sampling Operations Manager – WA, Mr Colin Biddiscombe, presents an AWTA Ltd sponsored award to a grower at the Wagin Woolarama in WA.

WAFF Conference in WA.

AWTA Ltd sponsored award for the Australian Fleece Competition at the Bendigo Sheep Show.

AWTA Ltd's Fremantle Laboratory at Bibra Lake.

Sampling Operations

Overview

Sampling of bales is the foundation of all wool testing operations. The integrity of the sampling process and independent verification of information such as the bale weights is fundamental to the accuracy of the test information obtained when these samples are analysed.

Independent sampling supervision provides customers worldwide with confidence when purchasing Australian wool. To obtain an International Wool Textile Organisation (IWTO) Test Certificate, every bale in every lot is sampled under the supervision of an AWTA Ltd Sampling Officer.

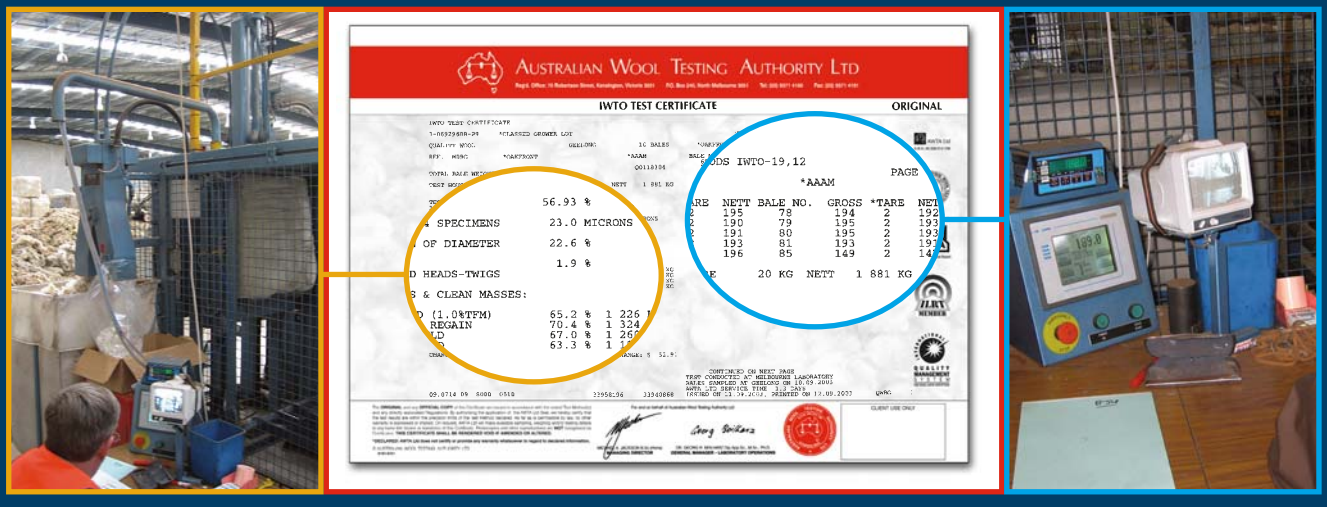
This ensures integrity from the very first stage of testing – a situation that is vital for clients along the processing pipeline.

AWTA Ltd's staff are an integral part of the core and grab operations in Australian wool brokers' and traders' stores. They:

AWTA Ltd staff are an integral part of the core and grab operations in wool stores.

- supervise the core sampling, grab sampling and bale weighing operations;
- package samples for secure transport to the laboratory;
- prepare documentation to identify samples for testing in the laboratory;
- work with warehouse staff to ensure that all Regulations are followed and that the sampling equipment is performing to expectations;
- assist in training the wool store personnel to understand the importance of the regulated procedures; and
- co-operate with brokers' management in any technical and commercial evaluations of new sampling equipment, and in monitoring of sampling productivity.

Recording of bale weights shown on certificate and used for calculating commercial invoice weights.



Supervision of core sampling process for yield & diameter testing.

IWTO Test Certificate (Original).

During 2002/03 a new sampling site opened in Katanning, Western Australia while sites located in Wagga Wagga, Walgett, Cowra and Goondiwindi ceased sampling operations. Australia-wide, AWTA Ltd Sampling staff numbers peaked at 139 employees.

"...unlikely that there will be any improvement in wool production during July to December 2003,..."

Ian Ashman – General Manager Customer Relations

Management

Overall management of Sampling Operations is the responsibility of the General Manager Customer Relations, Mr Ian Ashman. The management team supporting him is:

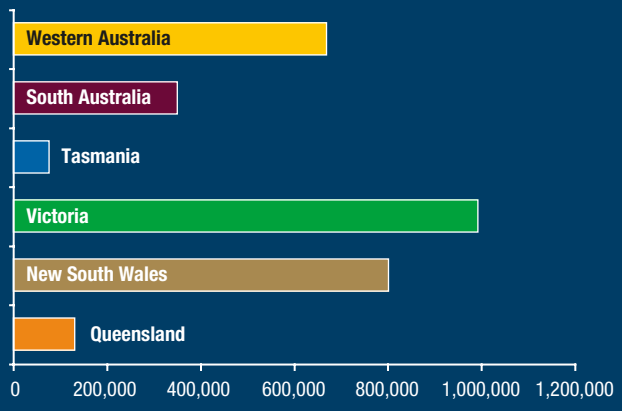
- Mr Colin Biddiscombe (Sampling Operations Manager WA);
- Mr Tim Steere (Sampling Operations Manager VIC/TAS);
- Mr Andrew Lindsay (Sampling Operations Manager NSW/QLD); and
- Mr Rick Stadler (Sampling Operations Manager SA).

The Sampling Operations Management team is also accountable for day-to-day liaison with customers and for the numerous AWTA Ltd promotional activities undertaken (page 20).

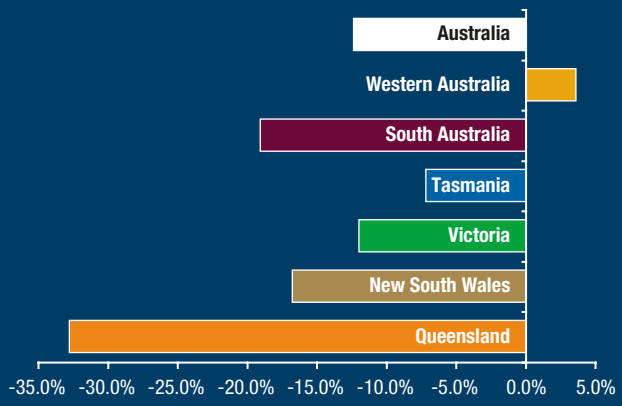
Workload

AWTA Ltd Sampling Officers supervised the sampling of 3.01 million bales in 2002/03. These bales were sampled in 41 cities/towns around Australia, involving almost 100 different sampling sites. The vast majority of these bales (2.84 million) were greasy wool, sampled prior to sale, with the remainder predominantly scoured and carbonised wool.

Total Bales Sampled 2002/03



Change in Bales Sampled 2002/03



Sampling Productivity

Sampling productivity performance is to some extent dependent upon productivity of the sampling lines within the various wool stores serviced by the Company. The Sampling Management team is continually working with store managers to improve core and grab line productivity, and to assist them when implementing technological improvements to their systems.

During 2002/03, productivity, excluding management overheads, increased by 2.0%, compared with 2001/02. When management overheads are included the productivity increased by 1.1%.

Outlook for 2003/04

The AWI Wool Production Forecasting Committee's forecast released in September 2003 predicted wool production would fall from 490,000 tonnes to 440,000 tonnes in 2003/04. This forecast is predicated upon the assumption that 2003/04 will see some relief from the drought that persisted throughout 2002/03.

It is unlikely that there will be any improvement in wool production during July to December 2003, the decline observed during January to June is expected to continue. Any improvement or stabilisation that occurs is unlikely to be observed until the second half of the financial year. This will be dependent upon lambing percentages during the spring and also on the slaughter rate over the year.

Given these trends and the Company's decision to not increase fees, sampling and consequently testing revenue will decline during 2003/04.

A prototype improved Mechanical Tuft Sampling machine was developed during 2001/02 by Melbourne Sampling and Maintenance staff. The Research & Development Division is currently building a production version of this machine (page 31). It is expected that the new machine will provide some improvement in sampling productivity, which will begin to be realised in late 2003/04 as upgraded versions of the older machines are deployed.

The AWI Wool Production Forecasting Committee's forecast of 440,000 tonnes in 2003/04 is predicated upon the assumption that 2003/04 will see some relief from the drought that persisted throughout 2002/03.

Photograph: courtesy of Pip Campbell, "Norwood", Queensland.

Raw Wool Testing Operations

Overview

AWTA Ltd has three Laboratories servicing the wool industry in Australia.

MELBOURNE LABORATORY - KENSINGTON Vic

SYDNEY LABORATORY - YENNORA NSW

FREMANTLE LABORATORY - BIBRA LAKE WA

Each Laboratory provides raw and scoured wool Certification Services for:

- Yield & Micron;
- Vegetable Matter Base;
- Fibre Diameter Distribution;
- Staple Length;
- Staple Strength (raw wool only);
- Regain (scoured wool only);
- Grease Content (scoured wool only); and
- Colour.

Each Laboratory also provides a range of non-certified, or Report, services. Growers, brokers and others can submit samples for a large range of these services. A Fleece Testing service is also offered directly to wool producers.

In addition the Sydney Laboratory provides testing services for speciality fibres including mohair and cashmere. The use of these services by speciality fibre producers continues to decline.

The AWTA Ltd web site (http://www.awta.com.au) provides a full list of all AWTA Ltd services.

AWTA Ltd has a key central role in the wool industry. If it could not deliver its services due to a disaster at any one of its laboratories, or to its computer systems, the industry would be considerably disrupted and AWTA Ltd's clients could incur significant losses. The Company therefore has developed and maintains a disaster recovery plan, designed to enable it to continue to operate and service its clients in such an eventuality. The plan depends on there being sufficient testing capacity within any two laboratories to service the Australian industry, and upon backup to and recovery of its centralised computer systems.

Management

Dr. Georg Beilharz is General Manager Laboratory Operations. His responsibilities include management of the Companies Laboratory Operations, Technical and Quality Control, Data Processing, Centre Administration and Repairs & Maintenance departments in the three AWTA Ltd Laboratories. He is supported by Mr. Angus Ireland (Senior Manager Sydney Laboratory) and Mr Paul Walsh (Senior Manager Fremantle Laboratory). Each Laboratory has a Data Processing Operations Manager and a Technical Manager. In Melbourne, all these Managers plus the Laboratory Manager report to Dr. Beilharz. At the time of this review the Technical Manager position in the Melbourne Laboratory is vacant, pending a company wide review of staffing requirements in the light of the decreasing workload that has been experienced over recent years.

Corporate Objectives

To maintain a national and international reputation for **technical expertise, commercial independence and professional integrity.**

To provide **accurate, impartial** and **efficient** sampling, testing, data processing and certification services as required by the wool, other fibre and textile industries at minimum cost.

To enhance the profitability of the Australian Wool Industry by **encouraging the optimum application of objective measurement.**

Performance Monitoring

The performance objectives for AWTA Ltd are embodied in the Company's Corporate Objectives (see box).

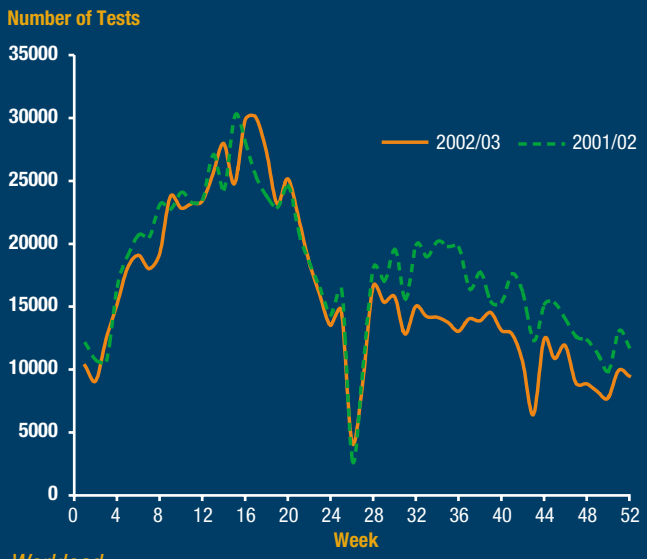
Several performance metrics are reported for the laboratories, which allow Technical, Service and Productivity performance to be monitored systematically. These also form the basis of continuous improvement of systems so that clients enjoy the benefits of improved technical standards and performance and fast turnaround of tests at minimum cost.

These measures are routinely reported to the Board and Management to ensure the Company maintains an appropriate balance between its Corporate Objectives.

"Workload during 2002/03 was severely impacted by the severe drought that affected most of Australia."

Georg Beilharz – General Manager Laboratory Operations

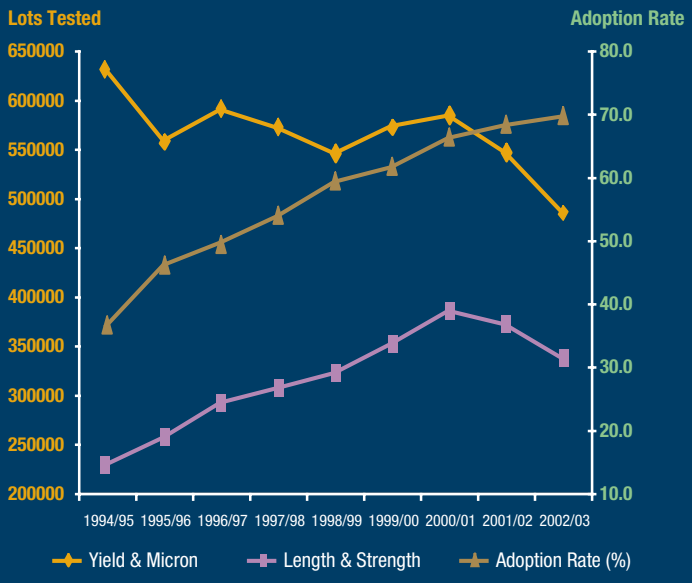
Testing Workload



Workload

Workload during 2002/03 was severely impacted by the severe drought that affected most of Australia. This impact was not felt immediately. During the first half of 2002/03 workload was very close to that of the year before. However, the impact became very apparent in the second half of the year, with most of the reduction experienced occurring within that period.

Workload Trends



The trends in workload since 1994/95 for Yield & Micron and Staple Length & Strength are shown above. While Yield & Micron testing has been declining, until 2001/02 Staple Length & Strength testing has been increasing. The fall off in 2001/02 and 2002/03 reflects the impact of the drought. However, the Adoption Rate for staple measurements has maintained a steady rate of growth.

Service

To meet the service requirements of customers, AWTA Ltd offers three levels of priority for service:

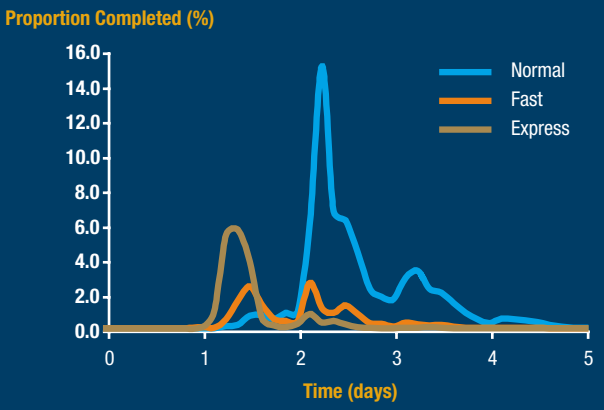
Normal: Test Certificates are available within 5 days.

Fast: 95% of Test Certificates are available within 3 days, and the remainder the following day.

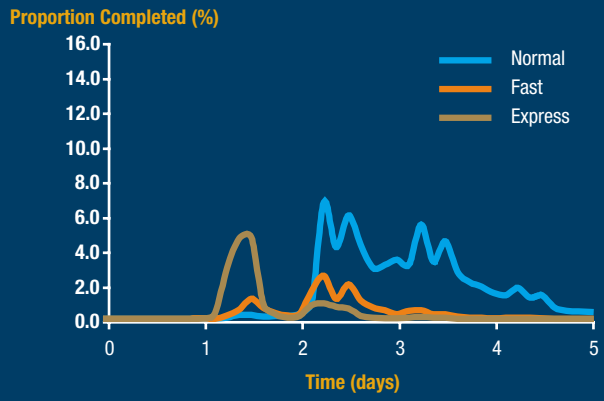
Express: 95% of Test Certificates are available the following morning, with the remainder the following day.

In each Laboratory, Express tests have the highest priority and are processed ahead of tests with Fast and Normal priority, respectively. This can be done because test priority is uniquely identified at sampling and at each stage of testing. Service time performance for 2002/03 for Yield & Micron and Length & Strength Certificates is illustrated in the distribution below.

Yield & Micron 2002/03



Length & Strength 2002/03



Service times for Yield & Micron and Length & Strength Certification.

Service time is measured from the date of sampling, rather than the date the test is received in the Laboratory. Hence, when samples are received from locations that are remote to the testing centre, they have already aged. Late arrival of samples is one reason that

each service time distribution graph is multimodal. A second reason is that IWTO standards specify tolerances, which result in 5% of all tests being repeated.

The largest factor determining service time is the proportion of production capacity utilised. Each laboratory monitors the utilisation of critical equipment to ensure stated service time objectives can be met. The decline in total workload has resulted in an increase in laboratory capacity relative to demand, thereby assisting service performance.

Productivity Performance

A significant proportion of the Company's costs relate to labour and associated on-costs of laboratory testing officers. It is therefore important that AWTA Ltd proactively monitors productivity performance in each laboratory. To determine the source of productivity differences between laboratories, productivity performance of each section of the testing process is monitored. This allows improvements in one laboratory to be rapidly incorporated into the operations of another laboratory.

IWTO-19 has been amended to permit the use of Near Infrared Reflectance as replacement for ashing furnaces (above) for determination of residual mineral matter in laboratory scoured wool core samples.

Given the manual nature of wool testing, effective and focussed operator training is essential. Extensive operator training programs were delivered in 2002/03. These training modules, which have become known as Engaged Employee Training, were designed to clarify the link between what operators do and business outcomes. Employees are now given monthly updates on AWTA Ltd Key Performance Indicators.

The improvement in productivity, on the basis that management overheads are excluded from the calculation, was 3.7%. However, when management overheads are included, productivity declined marginally by 0.2%. Given the decline in workload this performance reflects the continuing success of the efforts of the Company to continually improve productivity.

In 2002/03 this improvement has resulted largely from the focus on staff issues and training initiatives.

Technical Performance

AWTA Ltd's Raw Wool Operations are accredited to ISO 17025 and Certified to ISO 9002. This status has been maintained in 2002/03.

The National Technical Advisor is responsible for monitoring the Company's technical performance. He is also the Company's technical representative at IWTO.

Testing procedures are specified in Standards and Regulations published by the International Wool Textile Organisation (IWTO). The three Laboratories conduct testing in accordance with these standards. Numerous quality control checks are carried out and the reports monitored to ensure equipment is functioning correctly. Operators undergo extensive training by Senior Testing Officers to ensure the highest standards of operator proficiency are maintained throughout the three Laboratories.

Overall technical performance is monitored by the Independent Laboratories Round Trials Group (ILRT), which comprises the three AWTA Ltd Laboratories, the New Zealand Wool Testing Authority Ltd (NZWTA Ltd) and the Wool Testing Bureau, South Africa (WTB S.A.). The ILRT Group reports the outcome of the analysis to each participating Laboratory and also reports them to IWTO meetings.

The Company also employs additional internal monitoring systems, particularly for measurement of fibre distribution characteristics. Three 'standard' samples of wool top, ranging from fine to relatively broad Mean Fibre Diameter are routinely measured by each Laserscan instrument, and the results collated and reported so that the performance of all the instruments can be compared, both within and between Laboratories. This system provides a very powerful technique for early detection of any bias or drift in any instrument so that remedial action can be taken.

Likewise, a number of computer-generated reports, based on commercial test data, are also available to assist in maintaining and improving technical performance.

Outlook for 2003/04

A number of improvements in the systems for determining fibre fineness distribution characteristics developed by the Company's Research & Development Division were introduced throughout the last half of 2002/03. While these did have some effect on productivity during the year their real effect will impact in 2003/04.

The acceptance by IWTO at its Buenos Aires Congress in May 2003 of an amendment to IWTO-19 to allow the use of Near Infrared Reflectance (NIR) for the determination of residual mineral matter as an alternative to ashing at high temperature also provides further opportunity for productivity increases as well as energy cost savings. The Company already utilises NIR for determination of residual grease in laboratory scoured core samples, so additional capital expenditure will be minimal.

However, a considerable amount of work is required to calibrate this technique for Australian wool, and its implementation is unlikely until the second half of 2003/04.

Independent Laboratory Round Trials Group (ILRT)

AWTA Ltd, the New Zealand Wool Testing Authority Ltd (NZWTA Ltd), and Wool Testing Bureau, South Africa (WTB S.A.) established the International Round Trials Group (ILRT), which organises twice weekly round trials between the member laboratories.

Five (5) laboratories currently participate in the ILRT:

- Australian Wool Testing Authority Ltd - Sydney Laboratory;
- Australian Wool Testing Authority Ltd - Fremantle Laboratory;
- Australian Wool Testing Authority Ltd - Melbourne Laboratory;
- New Zealand Wool Testing Authority Ltd - Napier; and
- Wool Testing Bureau S.A. - Port Elizabeth.

The ILRT Group Members represent the largest independent wool testing laboratories in the world. They are collectively responsible for the testing of more than 40% of the world's greasy wool production, and in excess of 80% of all greasy wool tested. The ILRT is invaluable in that it provides data that enables individual laboratories to detect if and when biases develop in the measurements they conduct, so that corrective action can be taken. The ILRT members are the only Test Houses in the world at the moment that are benchmarked in this way and the fact that it occurs is well known throughout the industry. There have been many examples over the last 30 years where test houses that have not been regularly benchmarked in this way have developed systematic biases in the measurements that they produce, with severe commercial consequences to themselves and to the vendors and buyers relying upon their Certificates.

During 2002/03 the ILRT Group established a website. Its reports to IWTO are now available from this website (http://www.ilrtgroup.org).

Software on the Web server allows both New Zealand Wool Testing Authority Ltd and Wool Testing Bureau, South Africa to securely enter ILRT test results data directly into the ILRT database over the Internet.

NEW ZEALAND
WOOL TESTING AUTHORITY LTD

Research & Development

Overview

The Research & Development (R&D) Division is based at the Sydney Laboratory site and operates in four functional areas:

- Wool Metrology Research;
- Equipment Development;
- Equipment Manufacturing; and
- Servicing equipment sold externally.

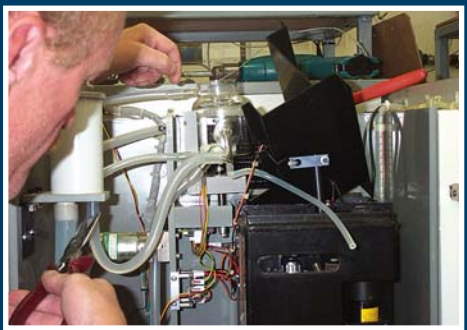
Expenditure on R&D in 2002/03 increased by 11.5% compared to 2001/02. The proportion of total operating expenditure directed towards research and development increased slightly to 3.64%.

Management

The Corporate Development Manager, Mr Peter Sommerville is accountable for the Management of the R&D Division.

The Division incorporates a Wool Metrology Group and an Equipment Development and Manufacturing Group. The former is the responsibility of the Research Manager, Dr Trevor Mahar, and the latter is the responsibility of the Engineering Manager, Mr Chris Ruberg.

While overall management of the Division is the responsibility of the Corporate Development Manager, the National Technical Advisor, Mr Jim Marler also actively participates in the planning of the Division's activities, as a member of the Division's Program Review Committee. The other members are the Corporate Development Manager (Chairman & convenor), the Research Manager and the Engineering Manager, with attendees from Laboratory Operations Management on an ad hoc basis.



R&D has developed and tested systems that eliminate blockages in the instrument arising from small pieces of vegetable matter.

Increasingly, R&D projects undertaken by the Company are requiring specialist skills from its Information Services Division (IS), as well as those within R&D. Given the increasing role of computers and software in wool metrology instrumentation, this trend is likely to continue. In some instances this has required the formation of teams of specialists from both Divisions, and in others a close interaction and co-ordination of the work being undertaken in both Divisions. Generally this is being co-ordinated by ad hoc committees, convened by the General Manager Corporate Services, the Corporate Development Manager or the National Information Services Manager, and attended by key technical staff from each Division.

Wool Metrology Research

A major Test House such as AWTA Ltd, has an obligation to ensure that it maintains a capability to continue to deliver its services to its customers, and this means ongoing reliability and security in the supply and maintenance of essential equipment. The size of the market for most raw wool testing instrumentation is too small to encourage the ongoing participation of major commercial instrument suppliers, and certainly too small to encourage such suppliers to continue to develop and improve the instruments. Consequently, AWTA Ltd has adopted the commercial strategy of negotiating agreements to ensure that it has manufacturing and development rights to the key technologies it employs to deliver its services, and has done this with the ATLAS instrument (used for determination of Staple Length & Strength) and the Sirolan™ Laserscan.

This has enabled the Company to pursue improvements in the performance of these technologies.

Laserscan

Due to its relatively recent introduction (July 2000) research related to the Laserscan continues to be the major focus of the Wool Metrology Group. In particular, substantial progress has been made in three areas, sample preparation, sample conditioning and potential medullation measurement.

Sample Preparation

Initially, IWTO-12 (Laserscan Test Method) did not allow subsamples to be carded in a Shirley Analyser to remove vegetable matter, whereas IWTO-28 (Airflow Test Method) required that they were. However, during the transition period to Laserscan for presale measurement, the industry decided that an Airflow result must accompany any Laserscan (or OFDA) result. It would have been prohibitively expensive to prepare two samples for fibre diameter measurement: a Shirley Analysed sample for airflow and a scoured sample for Laserscan.

Trials were conducted which established that Laserscan measurements recorded on snippets taken from the Shirley Analysed web used for Airflow were no different from those taken from the scoured sample. Consequently, IWTO amended the Laserscan Test Method to allow Shirley Analysing of the sample

R&D has demonstrated that the transport fluid in the Laserscan instrument (iso-propanol) can be replaced with water, with a small amount of wetting agent added. The Division has also demonstrated that in this instance preconditioning is also not required.

"Expenditure on R & D in 2002/03 increased by 11.5% compared to 2001/02."

Peter Sommerville – Corporate Development Manager

when a Laserscan (or OFDA) test was being done in conjunction with an Airflow test.

IWTO subsequently removed the requirement for an Airflow test to accompany a Laserscan (or OFDA) result for Australian wool (and later for New Zealand merino wool) and AWTA Ltd introduced Laserscan as the default method for all presale greasy wool tests in July 2000. While there were initially clients who requested an Airflow test in addition to Laserscan, the number of Airflow tests conducted by AWTA Ltd is now inconsequential. The transition to Laserscan is complete in Australia and AWTA Ltd was required to move to fully comply with the IWTO Test Method (IWTO-12) which stipulates in Clause 6.4.1 "When not Testing in Conjunction with IWTO-28" that the snippets be taken directly from the scoured subsample.

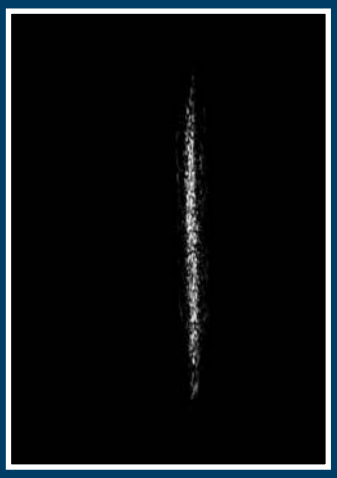
Prior to implementation, AWTA Ltd's R&D staff confirmed that removing the Shirley Analysing step would have no impact on the measured Mean Fibre Diameter. The complete transition to the full adoption of IWTO-12 was implemented in June 2003.

In parallel with this, the Division had also developed and tested a system that eliminated blockages in the instrument's measurement cell arising from small pieces of vegetable matter. The probability of this occurring is very much greater when uncarded samples are measured. This development removed the possibility of increased downtime due to blockages post implementation.

Sample Conditioning

In 2001/02 R&D demonstrated that the transport fluid in the Laserscan instrument (iso-propanol) can be replaced with water, with a small amount of wetting agent added. In the Annual Review for that year, further progress in this work was foreshadowed. The Division has now demonstrated that in this instance preconditioning of the wool fibres is not required provided sufficient time is allowed for swelling of the fibre snippets to an equilibrium level to occur. Progress in this work will be reported to IWTO in 2003/04.

Practical implementation into the laboratory testing systems requires amendments to IWTO-12, and also some improvements to more precisely control the measurement time in the Laserscan. Substantial progress has been made in this area. The major potential benefits are the possibility of accurate, almost real time determination of fibre diameter distribution characteristics in mills, more accurate testing on-farm, and reductions in the service times for IWTO Certification by AWTA Ltd's Laboratories. This work will be further progressed in 2003/04.



Backscattered light from a partially medullated wool fibre.

Medullation

The possibility of enhancing the Laserscan so that it can measure medullation was announced in last years review. During 2002/03 substantial progress has been made in this area also.

This is fundamental research, which is examining the scattering of laser light by medullated fibres. The initial work has involved observing the light scattered forward and backwards when a laser beam is intersected by medullated fibres. The intensity of the scattering has been found to be proportional to the amount of medullation. The research has indicated that maximum sensitivity can be obtained from the back-scattered light. It has been determined that it is physically possible to modify the existing optical bench in a Laserscan instrument to insert a detector to measure this back scattered light. However, it remains to be demonstrated that the signal will be sufficiently sensitive in the dynamic environment of an actual production instrument. During 2003/04 the Division will proceed to a prototype phase of this development.

Processing Trials

The Wool Metrology Group is continuing to manage the Non-Fleece Wool Processing Trial. A brief summation of this has already been presented in the Managing Director's Review (page 17).

A progress report was presented to IWTO in May 2003 and this highlighted a potential new measurement, Decrimped Staple Length. The value of this new measurement is being determined as part of this trial. Completion of this trial is expected by the end of 2003/04, although analysis of the results may continue into the following year.

Crimp Frequency Measurement

Although the Style Measurement Project managed by CSIRO and funded by the former AWRAP did not result in a commercially viable instrument for determining style characteristics, it did demonstrate that crimp frequency could be estimated by image analysis techniques.

Imaging software has developed considerably since this project was abandoned, and during 2003/04 AWTA Ltd's IS Division has utilised a commercially available imaging software development platform to develop a crimp frequency measurement system that can be integrated into the ATLAS system. A prototype production system has been developed and R&D is assisting with the technical evaluation of this. This work will continue throughout 2003/04.

Prototype Crimp Frequency measurement system mounted on an ATLAS instrument.

Equipment Development & Manufacturing

The Equipment Development and Manufacturing Group provides direct engineering support to the Metrology Group, the Information Services Division and the Raw Wool Sampling and Laboratory Operations. It also provides maintenance services to external customers who have purchased equipment manufactured by AWTA Ltd.

Equipment Development

Laserscan Electronics

AWTA Ltd's R&D and IS Divisions have been constantly improving the software and electronics in the Laserscan Instrument for more than 4 years. During 2002/03 a major upgrading of the entire electronics was initiated, utilising internal as well as external skills, to ready the instrument for the next 10 years. This project will be completed in 2003/04.

Wire Wheel for the Laserscan Instrument

In 2001/02 a work experience engineering student, from the Hochschule Bremen in Germany, was employed in R&D on a project to develop a component to provide the Laserscan instrument with a robust system to check the system optics. This involved a number of very fine wires mounted in a wheel that can be rotated through the laser beam.

The prototype was manufactured during 2002/03, and enhanced to include two wheels, which can be rotated through the beam, one on either side of the measurement cell. Deployment of the system to instruments in use by the Company has been deferred pending the redesign of the electronics that also commenced during the year.

Wire wheel mounted inside the Laserscan optical bench.

Initially it will be used for quality control purposes only. However the wires have also been selected to cover a wide enough range of diameters to potentially provide for a factory calibration of the instrument. The Interwoollabs Tops currently used for calibration will still be required. During 2003/04 R&D will be investigating whether or not this can then be transferred to the wires, thereby providing the instrument with a constant check that the entire measurement system has not drifted out of calibration.

Filtration of Transport Fluid in the Laserscan Instrument

Each Laserscan instrument incorporates a fabric filter to constantly remove fibre snippets from the transport fluid after they have been measured. Under normal operations in the Company's laboratories this is a daily task, as progressively the filters clog with fibres that cannot be removed and the filters must be replaced.

During 2002/03 another student from the Hochschule Bremen, Petra Schmidt, was engaged on a project to design a system for filtering the transport fluid from a bank of up to 16 Laserscan instruments

R&D's engineers designed a stainless steel filter to replace the CSIRO's fabric filters in the Laserscan instrument.

through a single external filter. The intention of the system is to reduce the labour input required to clean the internal primary filters of the instruments. A prototype system was constructed and will be further developed in 2003/04.

The Division's engineers have also designed a stainless steel filter to replace the fabric filters. These have been deployed in all the Company's instruments and will be offered to external users during 2003/04.

Dark Fibre Detection

The dark fibre detection service introduced in May 2003 utilises the Dark Fibre Detection instrument developed by CSIRO during the 1980's. The service is extremely labour intensive and therefore expensive.

During 2002/03 a second student from the Hochschule Bremen, Henning Bremer, joined R&D. Henning was sponsored by AWI, and worked on a project to develop a simpler and faster version of the Dark Fibre Detector. A prototype of the system he developed will be tested in the first half of 2003/04.

The Dark Fibre Detection instrument developed by CSIRO during the 1980's, is extremely labour intensive.

Snippet Subsampling for Fibre Diameter Measurement

Measurement of fibre diameter in the Laserscan requires specimens of fibre snippets, obtained by mini-coring the scoured subsample.

R&D's engineering staff developed an improved version of the mini-core used for this purpose, designed to deliver a greater and more repeatable mass of fibre.

ATLAS Balance Replacements

The ATLAS instruments weigh the broken portions of every staple measured for length & strength. The masses so obtained are then used to normalise the strength measurement and to calculate the position of break.

The original balances used in the instruments are no longer available. As they age, breakdowns become more frequent. During 2002/03 both R&D and IS worked together to identify suitable replacements, to modify the ATLAS software accordingly and to test the combination.

Mechanical Tuft Sampling

During 2001/02 Sampling Operations and Maintenance staff in Melbourne developed a prototype Mechanical Tuft Sampling machine, which is faster than the existing machines. R&D has assisted the progression of this development by constructing a production prototype. This will be tested during 2003/04 and then upgrade kits developed for all the machines currently in use around Australia.

Design modifications to AWTA Ltd's MTS machines, which are an integral component in preparing samples for Staple Length & Strength measurement, will make the machines faster and therefore more productive.

Equipment Manufacturing

Manufacturing activities during 2002/03 have included:

- Upgrades to 40 minicores used for subsampling fibre specimens for measurement in the Laserscan system;
- 2 production prototype Wire Wheels for the new Laserscan prototype;
- 3 enclosures for the ATLAS instrument to facilitate development of crimp frequency measurement;
- 9 Laserscan instruments;
- Dark Fibre Detection systems for the Dark Fibre Detection Service introduced in March 2003;
- Refurbishment of an old Laserscan instrument for a member of the ILRT Group;
- 2 Centrifuges for the Fremantle laboratory;
- Centrifuge components for equipment upgrade to Fremantle; and
- New balance kits for the ATLAS system for a member of the ILRT Group.

Manufacturing activity during 2003/04 will be very high, with major upgrades for a number of key items of equipment in use in the Laboratories already approved.

Equipment Servicing

R&D provided a 2 day Laserscan Maintenance Training Course in August 2002 as a service to the Company's Laserscan customers. The course featured talks by AWTA Ltd's technical experts on Wool Metrology, Laser Optics, general Laserscan operation, and Laserscan troubleshooting. The course also featured hands-on experience with the electronic alignment of the optics and using the diagnostic reports for advanced troubleshooting.

Activity servicing equipment sold to external customers was very low during 2002/03. The training course provided may have reduced service calls from those customers who attended. The reduction may have also reflected the reduction in on-farm testing that occurred during the year, so that the instruments were subject to less wear and tear.

Back row left to right:

Rod Mepham (Goddard Wool), Alma Anderson (Riverina Wool Testing), Taylor Ogilvie (Riverina Wool Testing), Renae Rawle (Riverina Wool Testing), Kate Paton.

Front row left to right:

Andrew Valentino (contractor to AWTA Ltd), Monica Leahy (Riverina Wool Testing), Elissa Criag (Riverina Wool Testing), Cam Huy Ta (AWTA Ltd), Chris Ruberg (AWTA Ltd), Dr Trevor Mahar (AWTA Ltd), Grant Jaeschke, Andrew Jaeschke, John Stanko (Australian Country Spinners), Andrew Paton.

Information Services

AWTA Ltd's Information Services Division provides essential support to Laboratory Operations. Enhancement of computer systems has been a major factor in the reduction of costs over the last decade, and probably more so than any other factor.

Management

The Information Services Division (IS) is based in AWTA Ltd's Head Office, in Melbourne. The National Information Services Manager, Mr Ray Duncan, reports to the General Manager Corporate Services, Mr Alex Artomonow.

The Information Services Division is responsible for the development and support of custom software and the purchase and support of all packaged software. It is also responsible for determining, sourcing and supporting the hardware and communications platforms used by AWTA Ltd.

All development of application software for both mainframes and PC's takes place within the Systems Applications Group, led by the Manager Systems Applications, Mr Kiru Govender. The Systems Support Group, led by the Manager Systems Support, Mr Ian Griffiths, is responsible for all system software on mainframes, servers and PC's, and all communications over both local and wide area networks. In addition, the Systems Support Group provides advice on systems issues to the application developers. The Manager Systems Applications manages a team of eleven developers while the Manager Systems Support has two support staff in his group.

Mainframe Systems

The mainframe systems developed or maintained by Information Services include the CENTRAL Certification and data repository system incorporating WOOLINK, the REGION laboratory data validation system, Accounting and Human Resources/Payroll systems, a Quality Management system used in conjunction with ISO 9002 certification, a Corporate Services system incorporating a categorised central mailing list, and an Electronic Data Interchange (EDI) mailbox. Another mainframe system services the Textiles Testing Division.

Additions and/or enhancements to the CENTRAL and REGION raw wool systems during 2002/03 included:

- Premium Micron Testing;
- Dark Fibre data entry for Report printing;
- Direct capture of Mohair fibre diameter results;
- Mohair Combinations;
- Staple strength data analysis reporting;
- Independent Laboratories Round Trials (ILRT) improvements; and
- Automation of returns within Sale of Wool.

The Fleece Measurement system was also changed to handle two sub-sample Ram testing and the direct capture of Mohair fibre diameter results.

Changes to the Accounting system included laser printing of cheques, a depreciation prediction detail report, and the loading of bank data into the system.

New audit and superannuation reports have been added to the Human Resources/Payroll system along with laser printing of payslips and alterations to the group certificates.

The Textiles Testing system continues to be maintained and improved with the addition of a supplier system, a Standards system, allowance for flexible service times, and the conversion of Report formats to allow both upper and lower case text.

The infrastructure within the Company to support both daily operations and the software development environment continues to be maintained and enhanced. The mainframe development is being converted to the Unisys PC based environment, with five systems converted to date.

Electronic Data Interchange

The Electronic Data Interchange (EDI) system now handles lot invoices for sale of wool and Premium Micron Tests. The communications program that front-ends the EDI Mailbox was modified to include a File Transfer Protocol (FTP) server. This now allows EDI transmissions across the Internet utilising Virtual Private Network (VPN) technology for security.

Several clients have been converted to this method of transmission, and planning is underway to convert more companies. This VPN technology also allows WOOLINK clients to access this system via the Internet, and one company has been converted to this access method. It is planned to convert all WOOLINK clients to access via the Internet next year.

To facilitate secure EDI transmissions over the Internet, a hardware device, a VPN concentrator, was installed to terminate the Virtual Private Network at Head Office. At the same time, the Firewall device was also upgraded ensuring the latest software and hardware is used to protect the Company network.

"...infrastructure within the Company to support both daily operations and the software development environment continues to be maintained and enhanced."

Ray Duncan – National Information Services Manager

Data Capture

The REGION system in each laboratory is front-ended by several systems including the B20 based data entry and capture system. PC based systems include the Laserscan fibre diameter measurement system, the ATLAS length and strength system, Colour measurement and Asset Tracker used during stocktakes.

During the year, programming commenced on the replacement of the laboratory data capture system, which will use PC's on-line to the laboratory mainframes. New PC's have been purchased to allow testing of programs to commence early in the next season at three locations within the laboratories. Further development, testing and implementation will progress over the next twelve to eighteen months.

Four releases of the Laserscan software were developed during the year for both internal and external client use. The first release encompassed the Decision Support System interface along with a sample system to enable all Laserscan users to store results on-line in any database system. Other releases included support for Premium Micron Tests, Mohair tests, and Research & Development work along with improved calibration methods and enhancements to the diagnostics.

The ATLAS software was modified to allow the use of the latest replacement balances with deployment in the Melbourne Laboratory and overseas to an ILRT Group member. New IWTO range checks for colour measurement were implemented in the Colour software.

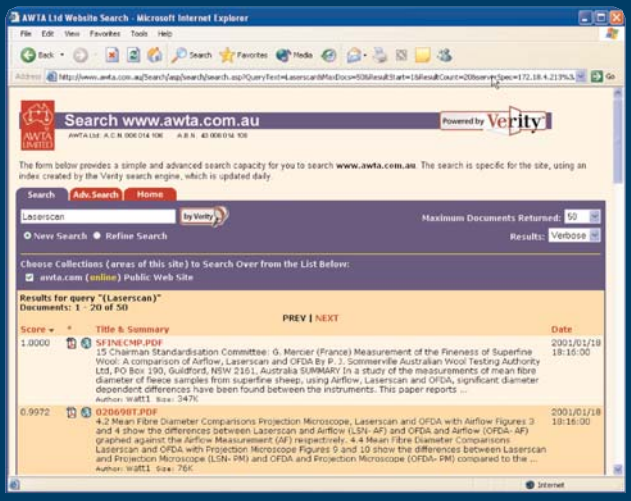
Administration Systems

A number of new IBM PC's were purchased and installed running the latest Windows XP operating system. These were installed within Information Services, Research & Development and for selected Management and high volume users in accordance with the established PC Policy. This involves the cascading of PC's throughout the Company so that the latest office applications are able to be installed when appropriate, with the older PC's used as terminal emulators accessing the mainframes.

The LAN servers in each laboratory were converted from Windows NT to the Windows 2000 server operating system. Desktop laser printers were replaced during the year, and it is planned to upgrade the laser printers used for Certificate and Statement printing in the next year.

Website Services

A Verity search engine was installed on the Web server to improve search capabilities for visitors to the AWTA Ltd Web site.



Textile Testing Operations

Overview

The Textile Division provides a general testing service to the manufacturing industry in Australia, while continuing to provide specialised testing facilities for the wool textile industry. The Division is continually seeking alternative uses for the extensive range of specialist testing equipment that is available within the Division.

AWTA Textile Testing provides testing in Chemical, Mechanical and Fire Performance and is accredited by the National Association of Testing Authorities, Australia (NATA) to ISO 17025 for tests in these three areas.

The markets serviced by the Division cover all of the Textile and Apparel industries from fibre production (starting at the wool top segment of the wool textile pipeline), yarns, fabrics, textiles and finished products. In addition, the Division provides an extensive consulting service to manufacturers and users of textiles.

The Division also provides fire performance data on textile materials, building products and aircraft components to assist manufacturers and users to assess the suitability of products for use in many regulated applications, such as children's nightwear, compliance with building codes, aircraft safety and many other areas.

Over the last four years the Division has diversified the markets that it services to include the automotive industry. It has been possible to utilise much of the specialist textile equipment for the testing of components used on the inside of the passenger compartment of cars. This testing is conducted for both the car manufacturers themselves and the suppliers of components. Expansion of the Division into this area is consistent with the Company's mission to " assist or promote the development of the pastoral, agricultural, manufacturing and industrial resources of Australia".

Environmental Chamber

Income Growth In The Last 12 Months

Income in 2002/03 grew 6% over 2001/02 with much of this growth coming from the automotive sector. The acquisition of a range of additional specialist automotive testing equipment during 2002/03 provided the basis of much of this growth. This will continue through 2003/04 with additional targeted capital purchases.

Domestic apparel testing continues to decline with more manufacturers re-locating overseas and having testing conducted in the country of origin. This trend is expected to continue throughout 2003/04. Testing of industrial apparel continues to show growth prospects as the requirements of such organisations as the fire authorities become subject to standardisation, resulting in a requirement for additional testing.

Carpet testing remained static due to the changing nature of the projects being undertaken towards fewer large commercial projects. Fibre testing continued to decline during 2002/03 in line with the decline in top making in Australia.

Salt Fog Spray Apparatus

"...acquisition of a range of additional specialist automotive testing equipment during 2002/03 provided the basis of much of this growth."

Bob Doyle – Divisional Manager Textiles

Gravelometer

QUV Apparatus

New Equipment

It has been possible to expand the automotive testing available from the Division to include components from the outside of the car, such as paint surfaces and much of the plastic moulding and bodywork components as a result of the purchase of additional equipment.

Specialist equipment purchased included a 14m^3 environmental chamber capable of controlled temperature and humidity cycling between –40ºC and 120ºC, a salt fog chamber to perform corrosion testing and a Gravelometer to measure stone chipping performance on automotive finishes.

Additional UV weathering facilities were also purchased during 2002/03 enabling the Division to carry out a wide range of UV performance tests on automotive components, coated fabrics and geotextiles as well as traditional textile and carpet products. The Division now has a comprehensive range of these tests covering most of the industry's requirements.

Staff Expertise

Two of the Division's senior staff employed in recent years have had extensive experience in the manufacture and supply of textile components into the automotive market. This experience has enabled the Division to quickly identify and capitalise on opportunities for growth.

Outlook for 2003/04

In the next twelve months the Division will continue to develop the automotive testing segment of the business. Significant growth is likely to come from the testing of additional components from the outside of the car utilising the equipment purchased in the past 12 months. It is the aim of the Division to become the primary source for the testing of these sorts of materials for the automotive industry.

In addition, changes to the fire testing requirements for wall and ceiling linings and floor coverings in buildings will require the re-testing of many building products using specialist equipment that the Division is currently commissioning. It is anticipated that industrial apparel will also continue to provide growth in the next 12 months as the requirements for fire fighters apparel is further refined and standardised.

Occupational Health & Safety

Occupational Health & Safety is a major emphasis at AWTA Ltd, particularly within the laboratory operations, as this is where most of the Company's employees work, and where the work environment is most diverse. Each of the laboratories has an OH&S Committee structured and appointed as required by the relevant legislation. These meet regularly and work practices and procedural changes are discussed with representatives. All staff have an opportunity to contribute their ideas for a safer workplace. Minutes of the meetings are shared amongst the laboratories and are reviewed by the General Counsel.

The Company maintains comprehensive documentation of administrative procedures relating to safety within its Corporate Administration Manual. Statistics on safety performance are presented to the Board at each meeting. Occupational Health & Safety performance is monitored using the measures defined in AS 1885-1990.

Lost time injuries in Raw Wool and Textile Operations increased over the reporting period from 13 to 26. The frequency rate increased from 15.5 to 33.9. However, the duration rate decreased by 325%.

The Occupational Health & Safety Committees review all reports of accidents and incidents, conducts regular safety audits and assists Management in communicating safety related issues to staff.

While Safety Committees do assist in auditing of equipment guarding, the technical and engineering knowledge needed to do this as required in AS4024.1-1996 means that this is mostly the responsibility of the Company's specialist technical and engineering staff.

During 2002/03 audits of some existing machinery highlighted areas where safety improvements, with respect to guarding, could be made. A program to implement these improvements was developed and is being implemented.

Environmental Impacts

Discharges to Sewer

The International Standards set by the International Wool Textile Organisation (IWTO) govern the method of testing and certification of the yield of raw wool. These standards require a system for scouring sub-samples and for separating wool from contaminating vegetable matter. Consequently the three Raw Wool Testing Laboratories generate aqueous effluents that are discharged to sewer.

Scouring utilises hot water and detergent, and results in a warm effluent, containing residual detergent, wool grease, mineral matter and suint. Separation of Vegetable Matter utilises a solution of hot caustic soda to dissolve specimens of wool. Any contaminating vegetable matter is removed by filtering the caustic solution through a wire mesh.

Effluent discharged to sewer consists of two streams – scour waste and caustic waste.

At the Sydney Laboratory Treatment of waste from scouring utilises chemical flocculation and dissolved air flotation to reduce suspended solids, grease and Biological Oxygen Demand levels. Temperature is reduced via a heat exchanger.

Licences to discharge these effluents are negotiated with the relevant Sewerage Authority. These licencing requirements differ from state to state. Therefore any treatment required before discharge also differs.

Details of the Company's performance in relation to these licences are set out in the Directors' Report (page 43).

Discharges to Atmosphere

Testing activities in the three Raw Wool Testing Laboratories also generate discharges to atmosphere, arising from the heating of water for scouring sub-samples and from controlled incineration of specimens drawn from these scoured sub-samples to determine any residual mineral matter remaining after scouring.

Natural gas is used in all laboratories as a fuel to provide these requirements.

The pH of caustic waste is reduced by injection of liquid carbon dioxide.

Atmospheric discharges therefore consist of the by-products of burning natural gas (principally carbon dioxide, water and traces of nitrogen oxides) and the by-products of incineration of wool and vegetable matter during the ashing process (principally carbon dioxide, water, nitrogen oxides and oxides of sulphur). In the latter case incineration occurs at a temperature of 800ºC, which is sufficient to ensure complete oxidation of the combustion products. In the Melbourne Laboratory, due to its proximity to residential accommodation, after burners are installed to maximise total combustion.

Discharges to atmosphere are regulated and licensed by Environmental Protection Agencies in the relevant states. These discharges meet the requirements of the licences issued by these agencies.

Quarantine Regulations

Australia's strict quarantine laws are designed to protect Australian Agriculture from economic loss resulting from imported plants, insects or diseases.

AWTA Ltd provides testing services for some overseas clients, and imports wool samples from New Zealand and South Africa for quality control purposes. Such imports are subject to Quarantine Regulations administered by Australian Quarantine Inspection Service (AQIS).

The Company adheres to procedures defined by AQIS regarding the treatment, handling and disposal of these samples.

Greenhouse Gas Emissions

Australia is not yet a signatory to the Kyoto Protocol. However, the Australian Commonwealth Government has established the Australian Greenhouse Office as a separate agency within the environment portfolio to provide a whole of government approach to greenhouse matters.

The Government has not yet legislated any requirements that apply to AWTA Ltd with respect to reductions of greenhouse gas emissions. Nevertheless, through its use of natural gas for heating and other purposes the Company does contribute directly to Australia's greenhouse gas emissions and contributes indirectly through its use of electricity.

Energy consumption, apart from base load requirements to service buildings and equipment, is driven by workload. In the period covered by this review, electricity consumption increased marginally, whilst the consumption of natural gas decreased marginally. During 2002/03 the cost of energy to AWTA Ltd was 3% of total expenses.

Significant reductions in greenhouse gas emissions by AWTA Ltd can only be affected by developing/implementing alternative technologies to those currently employed for testing wool, which reduce the use of natural gas and/or electricity. One such technology (Near Infrared Spectroscopy - page 27) has already been deployed, and further expansion on its implementation is under active consideration during 2003/04, which if successful will reduce natural gas consumption, with a negligible increase in electricity consumption.

The Company's Research & Development Division maintains an active watching brief for possible new technologies, or more cost effective existing technologies, as part of the Company's Strategic Plan.

Human Resources

Staff Numbers

AWTA Ltd's staff, being largely seasonal, peaked at 701 employees during September 2002. This was slightly below the peak of 750 employees in the previous year, a decline of 6.5%.

This index however only partially reflects the staffing situation. The severe drought that gripped wide areas of Australia for most of 2002/03 began to impact on the Company's Raw Wool Testing volumes in the second half of the year. Total manhours worked in Raw Wool Testing Operations declined by 10.5%. Most of this decline occurred in the January to July period.

The outlook for 2003/04 is for a further decline in staff numbers.

Enterprise Bargaining

During October 2002, the Company, Staff and the National Union of Workers negotiated a further Enterprise Agreement covering the Company's sampling and laboratory staff.

The Agreement has a term of 3 years and delivers a pay increase of 4% in year 1, 4% in year 2 and 5% in year 3.

The wage increases cover all productivity improvements together with the introduction of new services, machinery and computer systems over the life of the Agreement.

The Agreement includes a no further claims provision during its term.

No industrial disputation was experienced during the year.

Service Awards

20 Years Service

During 2002/03, 8 employees achieved 20 years service.

Generosa Fabay (96th)
Testing Officer (Melbourne), 7th July, 1982.

Bella Dy (97th)
Senior Testing Officer (Melbourne), 7th July, 1982.

Elsie Castanos (98th)
Testing Officer (Melbourne), 12th July, 1982.

Avelyn Bisset (99th)
Testing Officer (Melbourne), 14th July, 1982.

Anna Pirozzi (100th)
Senior Clerk (Sydney), 26th July, 1982.

Rod Agar (101st)
Laboratory Manager (Melbourne), 16th August, 1982

Andrew Patterson (102nd)
Laboratory Supervisor (Fremantle), 4th January, 1983.

Mick Alvaro (103rd)
Testing Officer (Fremantle), 4th January, 1983.

AWTA Ltd *annual review 2002–2003*

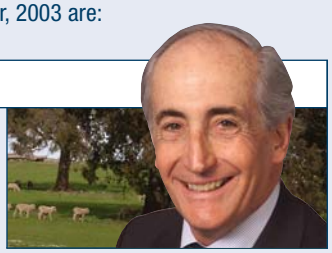
DIRECTORS' *report 2002-2003* & FINANCIAL *statements*

DIRECTORS' *report*

The Directors of Australian Wool Testing Authority Limited (AWTA Ltd) ABN 43 006 014 106 submit the financial accounts for the financial year ended 30th June, 2003 and report as follows:

DIRECTORS

The names, qualifications, experience and special responsibilities of the directors in office as at 5th September, 2003 are:



MR. A. G. McGREGOR AO, MA(Cantab), LLB, (Aged 67)

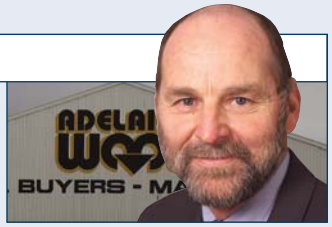
- Appointed as an independent director by the Members of this Company on 20th November, 1992 and has served as Chairman since that date
- Chairman of Audit and Remuneration & Appointments Committees
- Company Director and grazier, having formerly practised as a lawyer
- Chairman of James Hardie Industries N.V., Burns Philp & Company Limited and Intercast & Forge Pty Limited
- Director of a number of other listed and unlisted companies, including Kidman Holdings Limited and Minelab Electronics Pty Ltd
- Member of Boards or Committees of numerous charitable and other community-related organisations, including The Centre for Independent Studies (Chairman), the Finance Committee-University of Adelaide and The Winston Churchill Memorial Trust of Australia
- Attended 6 (of 6) Directors' Meetings and 4 (of 4) Committee Meetings

MR. D. G. McGAUCHIE, (Aged 53)

- Appointed as an independent director by the Members of this Company on 29th October, 1999
- Appointed as Deputy Chairman of this Company on 25th January, 2001
- Member of Audit and Remuneration & Appointments Committees
- Farmer and company director, having previously been active in national farming organisations
- Chairman of The Rural Finance Corporation of Victoria
- Deputy Chairman of Ridley Corporation Ltd
- Director of C&E McGauchie Terrick West
- Director of a number of listed and unlisted companies, including Telstra Corporation Ltd, Farm Plan Pty Ltd, Reserve Bank of Australia, James Hardie Industries N.V., National Foods Ltd, and Sinclair Knight Mertz Management Pty Ltd
- Attended 6 (of 6) Directors' Meetings and 4 (of 4) Committee Meetings

MR. M. A. JACKSON, BSc(Hons1), (Aged 37)

- Managing Director of this Company since 21st May, 2001
- Member of Environment & Safety Committee and of the Audit and Remuneration & Appointments Committees prior to 30th August, 2002
- Director of AWTA Super Plan Pty Ltd and AWTA Productivity Fund Pty Ltd
- Trustee of the AWTA Ltd Wool Education Trust
- Attended 6 (of 6) Directors' Meetings and 5 (of 5) Committee Meetings



MR. R. W. AMOS, (Aged 57)

- Appointed as the nominee director for the Private Treaty Wool Merchants of Australia Inc on 25th October, 2002
- Managing Director of Adelaide Wool Company Pty Ltd, which is a wool buying and broking company
- President of Private Treaty Wool Merchants of Australia Inc
- Attended 4 (of 4) Directors' Meetings

MR. S. H. CAMPBELL, (Aged 52)

- Appointed as the nominee director for WoolProducers on 12th November, 2001
- Grazier and consultant
- President of WoolProducers
- Director of Australian Wool Exchange Ltd
- Attended 6 (of 6) Directors' Meetings

MR. J. W. LEWIS, (Aged 51)

- Appointed as the nominee director for the Wool Textile Manufacturers of Australia Group of Australian Wool Processors Council Inc on 20th February, 2003
- Director and Chief Executive Officer of Macquarie Textiles Holdings Pty Ltd
- Attended 2 (of 2) Directors' Meetings

MR. J. H. LILLIE, (Aged 45)

- Appointed as the nominee director for the Australian Council of Wool Exporters Inc on 22nd December, 2000
- Member of Environment & Safety Committee
- Wool merchant and processor
- President of Australian Council of Wool Exporters Inc
- Director of Fox & Lillie Pty Ltd, Grampians Wool Industries Pty Ltd, Clyde Wool Scouring Pty Ltd, Lempriere Fox & Lillie Pty Ltd, Fox & Lillie Woolcombing Pty Ltd and Metasokol Pty Ltd
- Attended 5 (of 6) Directors' Meetings and 3 (of 3) Committee Meetings

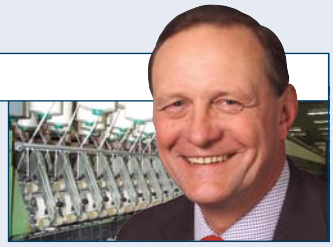
MR. J. B. ROBINSON, BEc, (Aged 41)

- Appointed as the nominee director for the Wool Scourers & Carbonisers of Australia Group of Australian Wool Processors Council Inc on 29th October, 1999
- Chairman of Environment & Safety Committee
- Managing Director of E.P. Robinson Pty Ltd, which is a wool processing company
- President of Australian Wool Processors Council Inc
- Director of Woolgrease Traders of Australia Pty Ltd
- Attended 6 (of 6) Directors' Meetings and 3 (of 3) Committee Meetings

MR. R. M. RYAN, (Aged 52)

- Appointed as the nominee director for The National Council of Wool Selling Brokers of Australia Ltd on 26th March, 2002
- Director and Managing Director of the Australian Wool & Pastoral Agency Ltd
- Director and President of The National Council of Wool Selling Brokers Australia Ltd
- Director of the Australian Wool Company Pty Ltd and RMR & Associates Pty Ltd
- Director of AMFG Finance Pty Ltd
- Councilor of The Royal Agricultural Society of NSW and Chairman of RAS's Sheep & Wool Committee
- Attended 6 (of 6) Directors' Meetings

MR. B. P. van ROOYEN, (Aged 58)



- Appointed as the nominee director for Australian Wool Innovation Limited on 20th February, 2003
- Previously the nominee director for the Wool Textile Manufacturers of Australia Group of Australian Wool Processors Council Inc (8th November, 1996 - 20th February, 2003)
- Member of Remuneration & Appointments Committee
- Chairman of AWTA Super Plan Pty Ltd and AWTA Productivity Fund Pty Ltd
- Chief Executive of Australian Country Spinners Pty Ltd
- Deputy Chairman of Australian Wool Innovation Limited
- Director of Textile Developments Pty Ltd and Claremont Superannuation Pty Ltd
- Attended 6 (of 6) Directors' Meetings and 3 (of 3) Committee Meetings

In addition to the directors currently in office, the following directors held office during the year:

Mr. G. F. Ostini (1st July, 2002 – 25th October 2002; Attended 2 (of 2) Directors' Meetings)
Mr. D. A. Webster (1st July, 2002 – 20th February, 2003; Attended 4 (of 4) Directors' Meetings and 1 (of 1) Committee Meeting)

During the financial year, 6 Meetings of Directors and 8 Committee Meetings (3 Environment & Safety Committee Meetings, 3 Remuneration & Appointments Committee Meetings, 1 Ad Hoc WA Property Committee Meeting and 1 Audit Committee Meeting) were held. The number of Meetings attended by each Director is stated in this Report.

During the financial year, the Company has paid premiums to insure each of the following persons against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or Secretary of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The premium paid for Directors & Officers Liability insurance was $12,757 for the 2002/03 financial year.

Directors: Mr A. G. McGregor AO (Chairman)
Mr D. G. McGauchie (Deputy Chairman)
Mr M. A. Jackson
Mr R. W. Amos
Mr S. H. Campbell
Mr J. W. Lewis
Mr J. H. Lillie
Mr G. F. Ostini
Mr J. B. Robinson
Mr R. M. Ryan
Mr B. P. van Rooyen
Mr D. A. Webster

Secretary: Mr C. Englander

ACTIVITIES

The principal activities of the Company during the course of the financial year were raw wool, textiles and other materials testing, and computer services.

OPERATING RESULT

The Net Loss of the Company for the year was $ 0.276 million. No amount has been provided for Income Tax, as AWTA Ltd is exempt from such tax by virtue of Section 50-40 of the Income Tax Assessment Act 1997.

REVIEW

The 2002/03 financial year proved to be very difficult for industries serving the rural sector in Australia, particularly the wool industry. Wool production had already fallen to its lowest level in 50 years during 2001/02 before further significant reductions during 2002/03 as a consequence of the prolonged drought conditions in many woolgrowing areas. The impact of the very low production levels have been felt by many sectors within the industry, including negatively impacting upon the revenue of AWTA Ltd.

Prior to the commencement of this financial year, the Australian Wool Innovation Production Forecasting Committee estimated that total shorn wool production would decrease by 5.0% to 520 million kg. During the first half of the financial year, the overall decline was negligible, with only 2.6% less wool tested than the previous year at the end of December. However, the full impact of the drought was seen in the second half of the year with 23.8% less wool tested than the corresponding period of 2001/02. For the full year, the total weight of raw wool presale tested by AWTA Ltd actually decreased by 12.4% to 501 million kg.

Closer analysis of testing volumes shows clearly that the reduction in wool production was largest in the eastern states, where the drought was most severe and widespread. In fact, in WA where some wool growing areas experienced relatively good seasonal conditions, the volume of wool tested actually increased by 4.2%. This provides some indication that production may rebound if and when the drought breaks in other areas.

The average Presale core test lot-size was 5.85 bales in 2002/03, down from 5.94 bales in 2001/02. Consequently, the total number of presale core tests conducted decreased by 11.0%, despite a larger reduction in the volume of bales sampled. Total revenue from Presale core testing only fell by 0.3% on last season, as the lower number of tests was offset by fee increases that were implemented in July 2002.

Staple Length & Strength testing activity decreased by 9.1% over the previous year. This decrease is less than the fall in Presale tests as the Australia-wide adoption rate (calculated as the proportion of all core tests) increased by 1.5%. The average Staple test lot-size fell from 6.22 to 6.14 bales, as growers are encouraged to conduct Staple tests on small lots in response to continued market demand for length and strength measurements. The fee increases implemented in July 2002 also applied to Staple tests, but were less significant than for core tests and consequently, total revenue from Staple testing decreased by 3.3%.

With regard to sampling and testing services for the Australian wool scouring and carbonising industry, the Company's income from this sector was 19.5% lower than in the previous year, due principally to significantly reduced activity in this sector of the industry, increased use of the greasy wool test results for trading and because fees for this class of test were not increased.

The Textile Testing Division continues to provide a wide range of material testing services to a diverse range of clients. During the 2002/03 financial year, the level of testing activity for the traditional textile clothing & footwear industries has continued to contract. However, in recent years, testing services have been developed for the automotive parts and industrial & technical textiles industries and demand for these services has steadily increased. As a result, total income for the Textile Testing Division increased by 6.0% above the previous year.

With regard to Non-operating income, interest earned on investments was 9.6% higher than the previous year, due to the sale of premises previously owned by the Company in South Fremantle providing significant additional funds for investment. At the same time, income from the sale of surplus sample material was 8.1%

lower than previously, due to the reduced testing activity producing significantly less wool for sale.

It has been reported in previous years reviews that the Company was the sole manufacturer of Laserscan instruments for fibre diameter measurement. In this regard, 6 machines have been sold this year compared to 18 in the previous year. Consequently, profit from equipment manufacture is 75.6% below last year. Revenue from this activity is likely to reduce to historical levels in the future.

SIGNIFICANT CHANGES

There were no significant changes in activities during the year.

MATTERS SINCE END OF FINANCIAL YEAR AND FUTURE DEVELOPMENTS

In the opinion of the Directors, other likely developments in the operations of the Company known at the date of this Report have been covered generally within the Report. The Directors are not aware of any other future development(s) likely to have a significant effect on the operations of the Company or on the expected results of those operations.

ENVIRONMENTAL ISSUES

The Company's operations are subject to particular and significant environmental regulations under State laws. Details of its performance in relation to such Regulations are set out below.

(a) The Company's Yennora, New South Wales, site is required to treat its waste water generated through wool testing, to meet the requirements of Sydney Water Corporation's Trade Wastewater Agreement.

The Agreement places limits on pH and temperature, as well as the mass and concentrations of Grease, Biological Oxygen Demand (BOD) and Suspended Solids (SS) that can be discharged to sewer. The limits are set on the basis of historical performance of the waste water treatment plant.

During the reporting period there were no breaches for Grease. However, 3 breaches were reported for BOD, 2 for SS and 3 for pH. As a consequence, the new Agreement with Sydney Water, which became effective on 1 July, 2003, contains a reduced limit for Grease and wider limits for both BOD and SS.

(b) The Company's Kensington, Victoria site is required to ensure that its waste water generated through wool testing complies with the agreed requirements of City West Water Ltd's Trade Waste Agreement.

The Agreement with City West Water commenced on 17 March, 2000 and concludes on 17 March, 2007. The Agreement places limits on the mass and concentration of pollutants that can be discharged to sewer.

During the reporting period, there were 2 occurrences when pH in excess of the limits set in the Agreement were discharged to sewer. These exceedences were considered by City West Water and no penalties were levied.

(c) Whilst no operations were conducted on the Company's former South Fremantle site during the reporting period, ownership was not relinquished until October, 2002. No discharge to sewer in excess of the requirements of the Industrial Waste Permit issued by the Water Corporation was recorded.

The Company's new Bibra Lake site discharges laboratory waste to sewer pursuant to an Industrial Waste Permit issued by the Water Corporation.

During the reporting period, all waste discharged to sewer complied with the Permit's stipulated limits.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

ROUNDING

The Company has applied the relief available to it in ASIC Class Order 98/100 and, accordingly, amounts in the Financial Statements and Director's Report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Directors and dated 5th September, 2003 at Melbourne.

A. G. McGREGOR AO
CHAIRMAN

M. A. JACKSON
MANAGING DIRECTOR

AUSTRALIAN WOOL TESTING AUTHORITY LTD

A.B.N. 43 006 014 106

STATEMENT OF FINANCIAL PERFORMANCE FOR YEAR ENDED 30TH JUNE, 2003

	NOTES	2003 $'000	2002 $'000
Revenue from Ordinary Activities	2	41,797	37,316
Employee Benefits & Costs Expense		(24,287)	(24,864)
Depreciation Expense	3	(4,360)	(4,247)
Repairs & Maintenance Expense		(1,858)	(2,068)
Energy & Utilities Expense		(1,096)	(1,271)
Software Expense		(633)	(680)
Materials & Supplies Expense		(600)	(680)
Printing & Stationery Expense		(610)	(674)
Travel Expense		(574)	(632)
Freight Expense		(479)	(530)
Other Expenses from Ordinary Activities		(2,542)	(2,414)
Net Book Value of Assets Sold		(5,034)	(1,024)
Net Loss		(276)	(1,768)
Net Increase in Asset Revaluation Reserve	5(a)	6,265	-
Total Changes in Equity		5,989	(1,768)

The accompanying Notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE, 2003

	NOTES	2003 $'000	2003 $'000	2002 $'000	2002 $'000
EQUITY	4				
Reserves	5	58,723		55,319	
Retained Profits	6	18,347		15,762	
TOTAL EQUITY			77,070		71,081
This is represented by:					
CURRENT ASSETS					
Cash Assets		833		1,171	
Receivables	7	45,130		38,931	
Inventories	8	1,325		1,694	
Property	9	807		4,320	
Other	10	789		686	
TOTAL CURRENT ASSETS			48,884		46,802
NON-CURRENT ASSETS					
Property, Plant and Equipment	11	35,798		31,939	
TOTAL NON-CURRENT ASSETS			35,798		31,939
TOTAL ASSETS			84,682		78,741
CURRENT LIABILITIES					
Payables	12	1,819		2,230	
Provisions	13	4,641		5,006	
TOTAL CURRENT LIABILITIES			6,460		7,236
NON-CURRENT LIABILITIES					
Provisions	14	1,152		424	
TOTAL NON-CURRENT LIABILITIES			1,152		424
TOTAL LIABILITIES			7,612		7,660
NET ASSETS			77,070		71,081

The accompanying Notes form part of these financial statements

STATEMENT OF CASH FLOWS FOR YEAR ENDED 30TH JUNE, 2003

	2003 $'000	2002 $'000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from Customers	33,254	34,940
Payment to Suppliers & Employees	(32,346)	(34,792)
Interest Received	2,074	1,680
Net Cash Provided by Operating Activities	2,982	1,828
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from Sale of Plant & Equipment	6,310	428
Payment for Property, Plant & Equipment	(3,230)	(8,212)
Net Cash Used by Investing Activities	3,080	(7,784)
Net Increase (Decrease) in Cash Held	6,062	(5,956)
Cash at Beginning of Year	38,171	44,127
Cash at End of the Year	44,233	38,171

NOTES TO STATEMENT OF CASH FLOWS

1. For the purposes of this Statement of Cash Flows, cash includes:
   (i) cash on hand, at banks and in the overnight money market;
   (ii) term deposits with banks, bank bills and cash invested in unit trusts.

   Cash at the end of the financial year, as shown in the Statement of Cash Flows, is reconciled to the related items in the Statement of Financial Position as follows:

CURRENT ASSETS		
Cash at Bank	433	461
Deposits at Call	400	710
Total Cash Assets	833	1,171
Short Term Deposits, Unit Trust	43,400	37,000
	44,233	38,171

2. Reconciliation of Cash Flow from Operations with Operating Result from Ordinary Activities.

Operating Loss	(276)	(1,768)
Non-cash Flows in Operating Loss:		
Depreciation	4,360	4,247
Changes to Provisions	363	(918)
Profit on Sale of Property, Plant & Equipment	(1,631)	(69)
Loss on Sale of Plant & Equipment	14	6
Changes in Assets and Liabilities:		
Decrease in Current Receivables	201	499
Decrease in Inventories	369	70
Increase in Other Current Assets	(102)	(124)
Decrease in Payables	(316)	(115)
Net Cash Provided by Operating Activities	2,982	1,828

3. The Company does not have credit standby arrangements or unused loan facilities.

The accompanying Notes form part of these financial statements

Australian Wool Testing Authority Ltd A.B.N. 43 006 014 106
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2003

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the entity of Australian Wool Testing Authority Limited (AWTA Ltd). AWTA Ltd is a Company Limited by Guarantee, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets.

The accounting policies have been consistently applied, unless otherwise stated.

(b) **Property, Plant & Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Property

Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. It is the policy of the Company to have an independent valuation at least once every 3 years, with annual appraisals being made by the directors.

No provision has been made in respect of any potential Capital Gains Tax as the Company is exempt from such tax.

Plant & Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads, as applicable.

Depreciation

Depreciation is provided for all property, plant and equipment, excluding freehold land, at rates which are appropriate to write off each asset progressively over its useful life to AWTA Ltd commencing from the time the asset is held ready for use. The straight line method is used.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	4%
Plant and Equipment	10-25%

(c) **Land Held for Resale**

Land held for development and resale is valued at net realisable value. Development expenditure is shown at cost. Profits are brought to account on the signing of an unconditional contract of sale.

(d) **Inventories**

Inventories are valued at cost, using the weighted average method.

(e) **Leases**

Lease payments for operating leases are charged as expenses in the periods in which they are incurred.

(f) **Income Tax**

AWTA Ltd is exempt from Income Tax by virtue of Section 50-40 of the Income Tax Assessment Act 1997.

(g) **Provision for Employee Benefits & Costs**

Provision for Employee Benefits covers accrued recreation leave, rostered days off, annual leave bonus, long service leave, estimated superannuation, workers compensation and payroll-tax expenses.

Employee Benefits expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other Employee Benefits & Costs payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions for non-superannuation guarantee benefits are made by the Company to employee superannuation funds and are charged as expenses when incurred.

(h) **Financial Instruments**

Financial Assets

Trade Debtors are carried at their book values less any provision for doubtful debts. A provision for doubtful debts is recognised in the accounts when collection of any amounts owing to the Company is not probable.

Short Term Deposits, which include discounted Bank Bills, are valued at face value. Interest income received in advance, which principally relates to discounted Bank Bills, is recognised over the term of the Bank Bills.

Financial Liabilities

Trade Creditors are recognised as amounts payable for goods and services that have been received.

(i) **Revenue**

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(j) **Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(k) **Comparative Figures**

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(l) **Rounding of Amounts**

The Company has applied the relief available to it in ASIC Class Order 98/100 and, accordingly, amounts in the Financial Statements and Director's Report have been rounded to the nearest $1,000.

(m) **Company Details**

The registered office of the Company is 70 Robertson Street, Kensington, Vic, 3031.

The principal places of business are:

Melbourne & Textile Laboratories:	24-26 Robertson Street, Kensington, Vic, 3031
Sydney Laboratory:	71-81 Byron Road, Guildford, NSW, 2161
Bibra Lake Laboratory:	Lot 100 Sudlow Road, Bibra Lake, WA, 6163

	NOTES	2003 $'000	2002 $'000
2. REVENUE			
Operating activities:			
Sales Revenue from Services		31,676	32,425
Non-operating activities:			
Interest from Unrelated Persons		1,977	1,803
Profit on Sale of Surplus Sample Material		1,289	1,403
Gross Proceeds from the sale of Manufactured Equipment		459	1,141
Gross Proceeds from the sale of Non-current Assets		6,310	428
Rent Income		21	64
Other		65	52
Total Revenue		41,797	37,316
3. OPERATING RESULT			
Operating Result from ordinary activities has been determined after:			
(a) Net Gains:			
Net gain on disposal of non-current assets:			
- Land & Buildings		1,557	–
- Plant & Equipment		60	63
(b) Expenses:			
Depreciation of non-current assets:			
- Buildings		542	333
- Plant & Equipment		3,818	3,914
Total Depreciation		4,360	4,247
Cost of sales on sale of Manufactured Equipment		341	659
Rental expense on operating leases – minimum lease payments		7	6
(c) Significant Revenue Items:			
Consideration on disposal of Land & Buildings		6,106	–
Carrying amount of net assets sold		4,548	–
Net gain on disposal of Land & Buildings		1,557	–
4. EQUITY			
AWTA Ltd is a Company Limited by Guarantee and it does not have share capital. The liability of the six Members (2002-6 Members) is limited to $50 (2002-$50) each in the event that the Company is wound up.			
5. RESERVES			
Asset Revaluation	5(a)	13,723	10,319
Asset Realisation	5(b)	–	–
Capital Maintenance	5(c)	45,000	45,000
Total Reserves		58,723	55,319
(a) Asset Revaluation:			
Movements During the Year:			
Balance at Beginning of Year		10,319	10,319
Revaluation increment on Land and Buildings		6,265	–
Transfer prior year revaluation increment to Asset Realisation Reserve being increment realised on sale of Land & Buildings		(2,861)	–
Balance at End of Year		13,723	10,319
The asset revaluation reserve records revaluations of non-current assets.			

		2003 $'000	2002 $'000
(b)	Asset Realisation:		
	Movements During the Year:		
	Balance at Beginning of Year	–	–
	Realised increment on Land & Buildings sold during the year transferred from asset revaluation reserve	2,861	–
	Transferred to Retained Profits	2,861	–
	Balance at End of Year	–	–
	The asset realisation reserve records realised gains on sale of non-current assets.		
(c)	Capital Maintenance:		
	Movements During the Year:		
	Balance at Beginning of Year	45,000	45,000
	Transferred from Retained Profits	–	–
	Balance at End of Year	45,000	45,000

The Capital Maintenance account represents the financial resources considered by Directors to be required to provide and maintain facilities to service clients' requirements for raw wool, textiles and other materials testing, and for computer services, from time-to-time. In determining this sum, Directors have taken the view that the Company should not borrow funds to finance its activities and ongoing development.

The Board first considered the establishment of a Testing Reserve in 1984. Prior to that time, the Balance Sheet item for Proprietorship (or Equity) was simply allocated into a Revaluation Reserve (covering the Land, Buildings, Equipment etc. acquired from the Australian Wool Corporation for $1.00) and an Accumulated Profit figure. The principal concern of the Directors was that, as time progressed, the increasing Accumulated Profit figure would inevitably mislead some analysts into believing that the Company was accumulating excessive profits. The establishment of the Testing Reserve was to highlight the Company's essential financial structure.

In June 1984, Directors created the Testing Reserve by the transfer of the Revaluation Reserve and an appropriation from accumulated profit. The balance was then described as Unappropriated Profit and, in accordance with the Australian Accounting Standards, this is now described as Retained Profits.

The accounting term "Reserve" has regularly been misinterpreted in the wool industry as describing monies surplus to current requirements. Whilst it was mandatory to retain this terminology to comply with the Accounting Standards, Directors subsequently changed the title to "Capital Maintenance Account", to emphasise its capital nature.

In determining the appropriate level for the Capital Maintenance Account, external advice has been taken and the following key points are considered. In particular, Directors note that:

- there is no "absolutely correct" level; it is a matter for commercial judgement, which must take into account the current performance objectives and the likely future expenditure on developing services;
- the Company has consistently adopted the strategy of generating required capital through profits;
- in addition to profits, provisions for non-cash expenditure (e.g. Depreciation, Employee Benefits and other Non-Current Liabilities) add to the Company's positive cash flow and significantly increase the funds available for investment in the money markets;
- the most secure position for the Company is to maintain these provisions in a realisable form; and
- these factors, coupled with the use of accrual accounting, mean that AWTA Ltd will always have substantial cash invested, which will be expended at some time in the future, but not necessarily all at once.

Directors review the level of the Capital Maintenance Account as part of the annual Budget process.

	2003 $'000	2002 $'000
6. RETAINED PROFITS		
Balance at Beginning of Year	15,762	17,530
Net Loss for financial year	(276)	(1,768)
Transferred from Asset Realisation Reserve	2,861	–
Balance at End of Year	18,347	15,762

Retained Profits is the difference between Equity and the established Reserves described under Note 5. This amount is considered by Directors as surplus to the current Capital needs of the Company, which can be reduced by either operating losses or abnormal losses.

Directors review the level of Retained Profits as part of the annual Budget and fee setting process.

7. RECEIVABLES AS CURRENT ASSETS		
Trade Debtors	2,256	2,410
Less Provision for Doubtful Debts	82	56
	2,174	2,354
Sundry Debtors	49	54
Short Term Deposits	43,400	37,000
Less Income Received in Advance	493	477
	45,130	38,931

Short Term Deposits, which include discounted Bank Bills and Unit Trusts, are valued at face value. Income received in advance principally relates to interest on discounted Bank Bills.

8. INVENTORIES AS CURRENT ASSETS		
Stocks of Supplies & Spares on Hand	1,325	1,694
9. PROPERTY AS CURRENT ASSETS		
Land & Buildings at independent valuation 30.06.01	–	4,320
Land held for resale:		
At net realisable value	318	–
Development cost	489	–
	807	4,320

Land located at Sudlow Road, Bibra Lake is being developed and sub-divided for sale and has been valued at estimated net realisable value.

The Land & Buildings at independent valuation at 30.06.01 is property located at Marine Terrace, Fremantle which was sold in July 2002 for $6.106 million; the profit on sale has been taken into account during the year ended 30.06.03.

10. OTHER CURRENT ASSETS		
Prepayments	789	686
11. PROPERTY, PLANT AND EQUIPMENT AS NON-CURRENT ASSETS		
(a) Land:		
At independent valuation 30.06.03	9,757	–
At independent valuation 30.06.01	–	7,910
Total Land	9,757	7,910

		2003 $'000	2002 $'000
(b)	Buildings:		
	At independent valuation 30.06.03	16,188	–
	At independent valuation 30.06.01	–	8,155
	Less Provision for Depreciation	–	333
		16,188	7,822
	Subsequent Additions at cost	–	5,425
	Less Provision for Depreciation	–	–
		–	5,425
	Total Buildings	16,188	13,247
	Total Land & Buildings	25,945	21,157
(c)	Plant & Equipment:		
	Under construction	424	370
	At cost	41,172	40,909
	Less Provision for Depreciation	31,743	30,497
	Total Plant & Equipment	9,853	10,782
Total Property, Plant & Equipment		35,798	31,939

The independent valuation as at 30th June, 2003 in respect of Land and Buildings was carried out by registered valuers and property consultants and was based on their assessment of current market values.

(d) Movements in Carrying Amounts of Property, Plant And Equipment:

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	NOTES	Land $'000	Buildings at Valuation $'000	Buildings at Cost $'000	Plant & Equipment $'000	Total $'000
Balance at beginning of year		7,910	7,822	5,425	10,782	31,939
Additions		489	–	–	2,729	3,218
Disposals		–	7	–	(464)	(457)
Depreciation expense		–	(326)	(216)	(3,818)	(4,360)
Reclassification of Assets between classes		–	–	(624)	624	–
Revaluation increments	5(a)	2,165	8,685	(4,585)	–	6,265
Transfer of Land for Resale to Current Assets	9	(807)	–	–	–	(807)
Carrying amount at the end of year		9,757	16,188	–	9,853	35,798

	2003 $'000	2002 $'000
12. ACCOUNTS PAYABLE AS CURRENT LIABILITIES		
Trade Creditors	1,819	2,230
13. PROVISIONS AS CURRENT LIABILITIES		
Employee Benefits & Costs	4,641	5,006
14. PROVISIONS AS NON-CURRENT LIABILITIES		
Employee Benefits & Costs	1,152	424
(a) Aggregate employee benefits liability	5,793	5,430
	No.	No.
(b) Number of Employees at year end	308	371

	2003 $'000	2002 $'000
15. AUDITOR'S REMUNERATION		
Audit of the Accounts	79	72
Other Services	–	–
	79	72
16. FINANCIAL REPORTING BY SEGMENTS		
The Company operates predominantly in a single business and geographical segment, providing a testing service to the wool industry within Australia.		
17. CAPITAL AND LEASING COMMITMENTS		
(a) Capital Expenditure:		
Sums Approved for Capital Expenditure on Projects in Progress due not later than one year	974	2,941
(b) Operating Lease Commitments:		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable:		
- not later than 1 year	7	7
- later than 1 year but not later than 5 years	15	15
	22	22

The property lease is a non-cancellable lease with a 3-year term, with rent payable in advance. Contingent rental provision within the lease agreement specifies the lease payments for each year. An option exists to renew the lease at the end of the 3-year term for an additional term of 3 years, at specified lease payments for each year. The lease does allow for sub-letting of the lease area.

18. SUPERANNUATION COMMITMENTS

The Company contributes to various defined contribution funds on behalf of employees and directors.

The Company has a legally enforceable obligation under the Superannuation Guarantee (Administration) Act 1992, Industrial Awards or employment contracts to contribute to nominated superannuation funds.

The Company sponsors the following two trust funds, whose membership is limited to AWTA Ltd employees and directors:

Trust Fund	Trustee Company	Issued Shares
Australian Wool Testing Authority Superannuation Plan (the Plan)	AWTA Super Plan Pty Ltd	1
Australian Wool Testing Authority Productivity Fund (the Fund)	AWTA Productivity Fund Pty Ltd	1

In addition to making superannuation contributions, the Company meets the cost of Death and Total & Permanent Disablement insurance provided to nominated members of the Plan.

As at 30th June, 2003 all superannuation contributions payable by the Company had been paid.

19. CONTINGENT LIABILITIES

Litigation by customer

An application has been made to join the Company as a respondent to litigation before the Federal Court. The cross-claim is expected to be greater than the Company's indemnity limit of $2.5 million under its Professional Indemnity Insurance cover. The amount of the cross-claim is not known. The action is being defended and at this stage a provision is not required to be made.

20. FINANCIAL INSTRUMENTS

(a) **Forward Exchange Contracts:**

The Company enters into forward exchange contracts to buy foreign currencies in the future at stipulated exchange rates. The objective in entering forward exchange contracts is to protect the Company against unfavourable exchange rate movements for contracted purchases undertaken in foreign currencies.

Cost or gains arising at the time of entering hedged transactions for the purchase of goods and services, and exchange differences that occur up to the date of purchase are deferred and included in the measurement of the purchase.

At 30th June, 2003, the details of outstanding forward exchange contracts are:

Buy English Pounds	Sell Australian Dollars		Average Exchange Rate	
Settlement	2003	2002	2003	2002
	$'000	$'000	$	$
Less than 6 months	82	–	0.3854	–

(b) **Interest Rate Risk:**

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

					Fixed Interest Rate Maturing					
	Weighted Average Effective Interest		Floating Interest Rate		Within Year		Non-Interest Bearing		Total	
	2003 %	2002 %	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Cash assets	4.85	4.58	400	710	–	–	433	461	833	1,171
Receivables	4.87	4.61	–	–	43,400	37,000	1,730	1,931	45,130	38,931
Total Financial Assets			400	710	43,400	37,000	2,163	2,392	45,963	40,102
Trade & Sundry Creditors	–	–	–	–	–	–	1,819	2,230	1,819	2,230
Total Financial Liabilities	–	–	–	–	–	–	1,819	2,230	1,819	2,230

Credit Risk

The maximum exposure to credit risk at 30th June, 2003 to recognised financial assets is the amount, net of provision for doubtful debts, as disclosed in the balance sheet and notes to the financial statements. The Company does not have any material credit risk exposure to any single debtor or group of debtors.

Net Fair Values

The net fair values of Short Term Deposits, which include discounted Bank Bills, are valued at face value. For other assets and other liabilities, the net fair value approximates their carrying values.

21. REMUNERATION OF DIRECTORS

	2003 $'000	2002 $'000
Amounts paid or payable to Directors or former Directors of AWTA Ltd	558	1,673
(a) Number of Directors or former Directors of AWTA Ltd whose remuneration and retirement benefits falls within the following bands:		
$ 0 – $ 9,999	2	3
$ 10,000 – $ 19,999	2	1
$ 20,000 – $ 29,999	5	5
$ 30,000 – $ 39,999	1	1
$ 60,000 – $ 69,999	1	1
$ 230,000 – $ 239,999	–	1
$ 280,000 – $ 289,999	1	–
$ 1,190,000 – $ 1,199,999	–	1

These amounts include salaries, Directors fees, Committee fees, allowances, fringe benefits taxes, provision of motor vehicles and superannuation contributions.

Article 21(f) of the Company's Articles of Association entitles a Director, having been granted Leave of Absence by the Board, to appoint an Alternate Director in his place during such period as he thinks fit. The names of each person holding the position of Director of AWTA Ltd during the financial year are listed below, together with any duly appointed Alternate Directors:

A. G. McGregor AO (Chairman)
D. G. McGauchie (Deputy Chairman)
M. A. Jackson (Managing Director)
R. W. Amos
S. H. Campbell
J. W. Lewis
J. H. Lillie
G. F. Ostini
J. B. Robinson
R. M. Ryan
B. P. van Rooyen
D. A. Webster

22. OTHER RELATED PARTY DISCLOSURES

Each of A. G. McGregor, D. G. McGauchie, R. W. Amos, S. H. Campbell, J. W. Lewis, J. H. Lillie, G. F. Ostini, J. B. Robinson, R. M. Ryan, B. P. van Rooyen and D. A. Webster have interests in organisations which utilise the services of the Company in the ordinary course of business. All services are provided under the Company's standard terms and conditions.

AUSTRALIAN WOOL TESTING AUTHORITY LTD

A.B.N. 43 006 014 106

DIRECTORS' DECLARATION

The Directors of Australian Wool Testing Authority Limited declare that,

the financial statements and notes for the year ended 30th June, 2003 set out on Pages 44 to 54 are in accordance with the Corporations Act 2001:

(a) comply with Accounting Standards and the Corporations Regulations 2001;

(b) give a true and fair view of the performance of the Company for the year ended 30th June, 2003;

(c) give a true and fair view of the Company's financial position as at 30th June, 2003; and

in the opinion of the Directors of Australian Wool Testing Authority Limited there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors and dated 5th September, 2003.

A. G. McGREGOR AO
CHAIRMAN

M. A. JACKSON
MANAGING DIRECTOR

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AUSTRALIAN WOOL TESTING AUTHORITY LIMITED

SCOPE

We have audited the financial report of Australian Wool Testing Authority Limited for the financial year ended 30th June, 2003 set out on Pages 44 to 55. The Company's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the Members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion, the financial report of Australian Wool Testing Authority Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's financial position as at 30th June, 2003 and its performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

HALL CHADWICK
Chartered Accountants

J. H. DAVIS
Partner

Melbourne
9th September, 2003

GLOSSARY

ash content	*The residue of a scoured wool sample after it has been subjected to charring followed by heating to 800 Celsius.*
ATLAS	*A computer-controlled instrument which measures the Staple Length, Staple Strength and Position of Break of individual staples.*
AWI	*Australian Wool Innovation Ltd*
coefficient of variation	*A statistical measure of the variability exhibited within a set of values. It expresses the standard deviation as a percentage of the mean.*
conditioning	*Equilibration of wool samples in a standard atmosphere.*
core test	*The series of measurements, typically of Wool Base, Vegetable Matter Base and Mean Fibre Diameter, carried out on a core sample.*
crimp	*The waviness of a fibre, expressed numerically as the number of complete waves per unit length.*
crimp frequency	*The number of crimp waves per centimetre of Staple Length.*
CSIRO	*Commonwealth Scientific & Industrial Research Organisation*
FAWO	*Federation of Australian Wool Organisations*
fibre diameter	*The thickness of individual fibres in micrometres or microns.*
grab machine	*A mechanical device capable of operating a set of jaws, which penetrate into the side of a wool bale and withdraw a representative grab sample of suitable mass.*
grab sample	*The greasy wool drawn from a bale by a single operation of a grab machine.*
hauteur	*The average of the length-biased distribution of fibre length in a wool top.*
ILRT	*International Laboratory Round Trials*
Laserscan	*An instrument that detects shadows of fibre snippets in a laser beam as they are carried in solution through the beam, developed for improved performance in measuring Mean Fibre Diameter and fineness distribution*
LATU	*Laboratorio Tecnologico del Uruguay*
Mechanical Tuft Sampler	*A device used to obtain, by mechanical means, representative tufts of staples from a grab sample.*
medullated fibres	*Fibres that have a central core of air.*
noil	*The short fibres removed during the combing process.*
NZWTA Ltd	*New Zealand Wool Testing Authority Ltd*
OFDA	*An instrument for measuring fibre diameter mean and distribution using automated microscope and image analysis techniques.*
raw wool	*Wool fibre together with variable amounts of vegetable matter and extraneous alkali-insoluble substances, mineral matter, wool waxes, suint and moisture.*
scouring	*The process of washing raw wool.*
staple	*A well-defined bundle of fibres, which has been removed from a mass of greasy wool as a unit.*
staple length	*The length of a staple projected along its axis obtained by measuring the staple without stretching or disturbing the crimp of the fibres.*
staple strength	*The maximum force required to rupture a staple per unit of average linear density.*
SUL	*Uruguayan Wool Secretariat*
TEAM	*Trials to Evaluate Additional Measurements*
vegetable matter	*Burrs (including hard heads), twigs, seeds, leaves and grasses present in wool.*
wool top	*Sliver that forms part of the starting material for the worsted and certain other drawing systems, usually obtained by the process of combing.*
WTB SA	*Wool Testing Bureau South Africa*
yield	*The amount of clean fibre, at a standard moisture content, that is expected to be produced when a delivery of raw wool is processed.*

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