









NZWTA



AWTA Product Testing

















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# **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 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 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 were and are still enshrined in its Memorandum.

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; and
- 10. To provide certificates and make reports in respect of test and research carried out by the Authority.

# MISSION, VISION & VALUES

#### **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 maintain a national and international reputation for technical expertise, commercial independence and professional integrity by providing accurate, impartial and efficient sampling, testing and certification services to our customers.

#### **VALUES**

- To maintain technical excellence, by taking maximum advantage of emerging technologies and providing staff with the knowledge, skills and equipment to improve customer service and lower costs;
- To ensure commercial independence in all activities;
- · To insist on 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 process 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 aspire to provide a safe and satisfying working environment, which encourages employee participation and is supported by appropriate training and development programs;
- To seek to meet all legal and moral obligations of a good corporate citizen; and
- 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 industrial resources of Australia.

# **INDUSTRY GOOD ACTIVITIES**

- Whilst having to operate in a commercial environment, AWTA Ltd is committed to its industry good purpose underpinned by its not-for-profit status.
- Since its inception, the Company's key goal has been to keep the fees it charges for wool testing to a minimum and predominantly under the rate of inflation. The Company's major business strategies continue to be developed around this goal;
- The Company sponsors agricultural events and plays a key role within the International Wool Textile Organisation, whose mission is to promote wool as a sustainable and accessible premium fibre;
- AWTA Ltd collates and freely makes available to the public, a significant amount of information to aid all facets of the wool industry, including promotion, production and productivity;
- The Company invests significant resources in research and development activities which have advanced the objective measurement of wool, reduced costs for the industry and led to more efficient testing methodologies;
- AWTA Ltd maintains two full-function raw wool testing laboratories in Australia (Kensington, Victoria and Bibra Lake, WA) and one in Napier, New Zealand, to comfortably meet peak demand loads and to provide disaster recovery or back-up facilities in the event that one or more laboratory is taken out of service for whatever reason;
- AWTA Ltd provides educational scholarships and university cadetship program placements. It provides administrative and accounting support
  to the Australian Wool Education Trust. The Trust, which AWTA Ltd established, endeavours to advance education in wool and textile science

- and technology. It funds educational resources, programs, institutions, students and colleges, as well as scientific research undertaken for the advancement of education;
- The Agrifood Technology division provides value-adding services to Australia's grain, horticultural, food and feed industries. It assists various industry associations with technical assistance and helps to calibrate and standardise analytical methods, at no cost.
- The division is a member of the Imported Food Consultative Committee, which assists the food and beverage importing industry and the Department of Agriculture, Fisheries and Forestry with a forum to ensure that effective food safety and compliance outcomes are delivered without unnecessary impediments to trade; and
- The Company's Product Testing division's staff serve on a number of Australian Standards Committees. The division participates in Interlaboratory Comparison Trials for NATA Accreditation and for both local and international laboratories.

# **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 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 Ltd)
- Private Treaty Wool Merchants of Australia Inc (PTWMA Inc)
- The National Council of Wool Selling Brokers of Australia Inc (NCWSBA Inc)
- WoolProducers Australia

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

## **DIRECTORS**

Directors holding office at the date of this Report are:

#### Chairman

D.G. McGauchie AO (elected Independent Director)

**Deputy Chairman** 

G.W. Dickinson (elected Independent Director)
M.A. Jackson (AWTA Ltd Managing Director)
M.D. Avery (appointed by ACWE Inc)

G.C. Fisken (nominee of WoolProducers Australia)
P.D. Morgan (appointed by AWPC Inc from WTMA Group)
D.B. Ritchie (appointed by AWPC Inc from WSCA Group)

G.W. Turner (appointed by PTWMA Inc)
D.A. Webster (appointed by AWI Ltd)
C.J. Wilcox (appointed by NCWSBA Inc)

Profiles on each of the Directors are provided in the Directors' Report (page 15).

#### COMPANY SECRETARY

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

# **BOARD RESPONSIBILITIES**

The Board is responsible for the overall corporate governance of the Company, including its strategic direction and financial objectives. It sets goals for management and monitors their attainment. The Board has specifically assumed responsibility for:

- the approval of strategy and annual budgets;
- the provision of strategic direction and oversight of management;
- corporate governance;

- the selection and evaluation for succession planning of executive management;
- · significant acquisitions and disposals of assets;
- significant expenditure decisions outside of the corporate budget;
- the remuneration of executive management;
- the approval of and monitoring of financial performance against corporate objectives and policies; and
- the integrity of risk management strategies and controls.

The delivery of the Company's strategic direction and goals as determined by the Board is delegated to management under the leadership of the Managing Director.

#### 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.

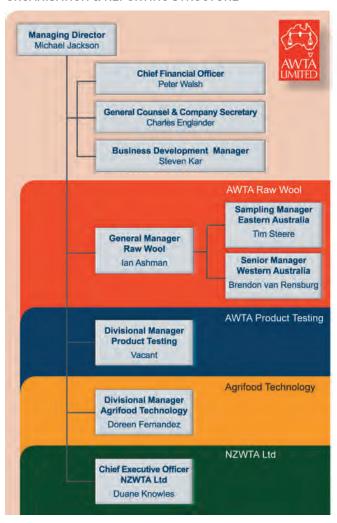
AWTA Ltd is organised for management and reporting purposes into four operating divisions. Management responsible for those divisions must account for their performance within a framework of strategic plans, budgets, position descriptions, targets, standards and policies.

The Strategy Committee, comprising senior management from Head Office and the four divisions, co-ordinates the management activity.

Strategy Committee Members are:

- Managing Director
- · Chief Financial Officer
- General Counsel
- General Manager Raw Wool
- Chief Executive Officer NZWTA Ltd
- Divisional Manager Agrifood Technology
- Divisional Manager Product Testing
- Senior Manager Western Australia
- Sampling Manager Eastern AustraliaBusiness Development Manager

# **ORGANISATION & REPORTING STRUCTURE**



#### **REMUNERATION & APPOINTMENTS COMMITTEE**

Current members of the Remuneration & Appointments Committee are:

- Mr D.G. McGauchie AO (Committee Chairman)
- Mr G.W. Dickinson
- Mr D.A. Webster

The Managing Director attends the Committee meeting except when his own remuneration and employment conditions are being considered.

The Committee is charged with:

- setting policies and making recommendations on remuneration policies for the Company, including those governing the Directors, the Managing Director and senior management;
- reviewing candidates for vacant senior executive management positions and making specific appointment recommendations to the Board; and
- approving the recommendations of the Managing Director on the remuneration of all non-award personnel below senior officers

Directors attendance at Committee meetings is reported in the Directors' Report.

#### 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.

#### **Executive Director & Senior Executives**

The Board determines the remuneration for the Chief Executive Officer (Managing Director), the Chief Financial Officer and the General Manager - Raw Wool, upon the recommendation of its Remuneration & Appointments Committee. Remuneration is decided following an annual review that considers performance, relevant comparative remuneration and independent advice. The Committee comprises Non-executive Directors only when it deals with the remuneration and employment conditions of the Managing Director.

#### **AUDIT & FINANCE COMMITTEE**

The role of the Audit & Finance Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities.

The principle objectives of this Committee are to:

- assist the Board in the discharge of its responsibilities relating to all financial matters;
- assess and advise the Company's Board on whether the annual financial report represents a true and fair view of the Company's financial position and complies with regulatory requirements;
- substantiate the existence, quality and valuation of the Company's assets;
- determine that management has implemented policies and procedures designed to ensure that the Company's risks are identified, assessed and appropriately addressed in a Risk Management Plan;
- ensure the operation of effective internal control policies and procedures:
- oversee the independence and appraise the quality of internal and external audits;
- maintain lines of communication between the Board, management and internal and external audit; and
- examine the accounting policies of the Company to determine appropriateness to general accepted practices.

The Committee comprises one Independent Director and up to two other non-executive Directors. The Chairman, the Managing Director, the Chief Financial Officer and the external auditor attend meetings by invitation.

The current members of the Committee are Mr G.W. Dickinson (Committee Chairman) and Mr M.D. Avery. Attendance at Committee meetings is reported in the Directors' Report.

#### **ENVIRONMENT & SAFETY COMMITTEE**

The Company has a policy to conduct its business activities so as, wherever practicable, to minimise any adverse impact of such activities on the community and the environment and to comply with applicable legislative requirements. The Environment & Safety Committee ensures that the Company's environment and occupational health and safety obligations are implemented and maintained.

The Committee's key responsibilities are to:

- ensure that environmental management system requirements, including policies in relation to the Company's obligations with respect to environmental and health and safety issues are established, implemented and maintained;
- ensure compliance with all laws, regulations and regulatory obligations relating to environmental and safety matters by the Company;
- oversee the effective monitoring of the Company's operations in relation to environmental and occupational health and safety matters:
- keep the Board informed of the Company's activities in relation to its environmental and occupational health and safety obligations;
- ensure that the Company's environmental policy, objectives and targets are based on knowledge about the environmental impacts associated with its activities, products and services and any regulatory requirements; and
- review the environmental management system to ensure its continuing suitability.

Current members of this Committee are Mr G. W. Turner (Committee Chairman), Mr C.J. Wilcox, Mr M. A. Jackson and Mr C. Englander. Attendance at Committee meetings is reported in the Directors' Report.

# **CORPORATE GOVERNANCE**

#### CORPORATE GOVERNANCE CHARTER

AWTA Ltd follows the Australian Charities and Not-for-profits Commission governance standards and, whilst not a listed company, it also adopts any applicable ASX Corporate Governance Principles and Recommendations. The Board is responsible for the overall corporate governance of the Company, including its strategic direction, major policies and financial objectives. The Board has adopted a Charter that delineates its role and the role of individual Directors. The Corporate Governance Charter and Guide for Directors and Officers is publicly available on the Company's website.

#### **CORPORATE CONDUCT & ETHICS**

The Company recognises that it is vital to its continuing success that its staff maintain the highest possible reputation for technical expertise, commercial efficiency, impartiality, independence, equal opportunity and professional integrity. To ensure that they are aware of the ethical framework in which they are required to work, each staff employee is required to read and sign the Company's Corporate Conduct & Ethics Policy. This policy sets broad guidelines for conduct and reflects AWTA Ltd's corporate "conscience" by promoting the highest levels of behaviour.

# APPOINTMENT OF AUDITORS

The Company's auditors are Pitcher Partners. The auditors' effectiveness, performance and independence is reviewed by the Audit & Finance Committee.

Audits are conducted in accordance with the Corporations Act 2001 and the Australian Auditing Standards, which require auditors to comply with relevant ethical requirements related to audit engagements and to plan and perform the audit so as to obtain reasonable assurance that the financial report is free from material misstatement.

The auditors are obligated to comply with the independence requirements of the Corporations Act 2001.

The auditors are required to form an opinion whether the financial report of Australian Wool Testing Authority Ltd complies with the requirements of the Corporations Act 2001, the Regulations and the Australian Accounting Standards.

#### RISK IDENTIFICATION AND MANAGEMENT

The Company continues to have in place a number of risk management controls including:

- guidelines and limits for approval of capital expenditure and investments;
- an annual insurance review;
- defined senior management responsibilities for areas including equal opportunity, occupational health and safety, environmental compliance, legal liability, risk identification and reporting and financial controls;
- policies and procedures for the management of financial risk and investment operations, including exposure to foreign currencies and movements in interest rates;
- strategic planning process for the implementation of 3-year strategic plans;
- annual budgeting and monthly reporting systems enabling the monitoring of progress against performance targets and the evaluation of trends:
- · Director's Declarations of Interests; and
- disaster recovery procedures for the key business units of the Company.

#### **COMPANY POLICIES**

In addition to the Company policies previously referred to, the Company has and maintains a comprehensive range of policies and procedures including:

- Accounting;
- Payroll;
- Debtors;
- Assets;
- Purchasing:
- Occupational Health & Safety;
- Environmental Compliance:
- Restrictive Trade Practices & Consumer Law Compliance;
- Staff Recruitment, Training and Termination;
- Privacy;
- Anti-Harassment, Bullying and Discrimination;
- Records & Statistics;
- Equal Opportunity;
- Corporate Conduct and Ethics Policy; and
- Improper Conduct Policy.

The Company's policies are regularly monitored and reviewed and aim to meet or exceed best practice with comparable organisations.

# **ENVIRONMENTAL IMPACTS**

The Company's operations are subject to particular and significant environmental regulations under State laws.

# **HUMAN RESOURCES**

# STAFF NUMBERS

AWTA Ltd's staff numbers vary in response to seasonal work-flow. Variations in work-flow are managed in part by the use of casual and to a lesser extent, part-time staff. AWTA Ltd's staff numbers peaked at 398 in September, 2013.

#### STAFF TRAINING

As part of the Company's due diligence program, the legal department, supported by regional and divisional management regularly conduct training in anti-discrimination, bullying, sexual harassment, restrictive trade practices, equal opportunity, occupational health and safety, internet and email use and affirmative action. During this reporting period, training focused on discrimination, harassment, bullying, Occupational Health and Safety and use of social media.

#### **OCCUPATIONAL HEALTH & SAFETY**

The Company's occupational health and safety obligations are monitored by Executive Management, with day-to-day responsibility resting with regional management.

Safety performance data consisting of lost time accidents, frequency rate and duration rate are calculated to AS/NZS 4801-2001 and reported monthly. The data is reviewed by management, the Environment & Safety Committee and the Board.

During 2013/14, the Company experienced 1 lost time accidents (7 less than in the previous year), a lost time frequency rate of 2.1 (compared to 16.3 in the previous year) and a lost time duration rate of 220.0 (up from 210.5 the previous year).

Achieving a zero Lost Time Injury result is a goal of all responsible employers. Such a result can only be achieved by careful attention to systems of work, risk assessments, work organisation and a shared commitment by staff to safety and injury prevention. AWTA Ltd continues to work with staff to increase on-the-job awareness of safety and to maintain a culture of shared commitment to safety.

#### SERVICE AWARDS

It is noteworthy that a significant number of staff have been employed by AWTA Ltd for more than 20 years. Since the formation of the Statutory AWTA in 1957 to the completion of the year under review, 202 employees have reached 20 years service, 58 have achieved 30 years service and 7 have reached 40 years service. During 2013/14, the 40 year service roll increased by 2, the 30 year service roll increased by 1 and the 20 year service roll increased by 2.

SERVICE AWARDS		
40 Years		
Ivan Jurisic	(6 <sup>th</sup> )	Laboratory Controller (Melbourne), commenced 14 June 1974
Pat Ryan	(7 <sup>th</sup> )	Sampling Controller (Brisbane), commenced 24 June 1974
30 Years		
Charles Englander	(58 <sup>th</sup> )	General Counsel, commenced 13 February 1984
20 Years		
Bev Dirkx	(201 <sup>st</sup> )	Analyst Quality Milling Laboratory, commenced 13 December 1993 (formerly with AWB)
Anita Schwarz	(202 <sup>nd</sup> )	Analyst Quality Milling Laboratory, commenced 24 December 1993 (formerly with AWB)

# CHAIRMAN'S STATEMENT

AWTA Ltd has recorded a net profit of \$2.924 million for 2013/14.

While this is a significant decline from the profit of \$8.095 million reported last year, it is important to consider that the 2012/13 result included a refund of \$5.500 million dollars of payroll tax paid over the 4 prior years. The 2013/14 profit is actually an improvement on underlying 2012/13 result, excluding the payroll tax refund, of \$2.595 million.

When AWTA Ltd was privatised in 1982 it was structured as a Company Limited by Guarantee with the objective of providing services to its clients at minimum cost, rather than maximising profit for distribution to shareholders. There is no doubt that over many years the Company has been successful in this regard; the fee for AWTA Ltd's primary service (presale raw wool testing) is approximately the same today as it was 20 years ago.

However, in the last two decades, wool production in Australia has declined and AWTA Ltd's principal market has been shrinking. AWTA Ltd responded by focussing on innovation and cost control in its raw wool testing laboratories and by reducing corporate overheads. At the same time, the Board recognised that it was essential for the Company to broaden its revenue base beyond raw wool and textile testing into other services to agriculture so that fees continue to be contained as the volume of wool produced in Australia declines.



MR D.G. McGAUCHIE AO CHAIRMAN - AWTA Ltd

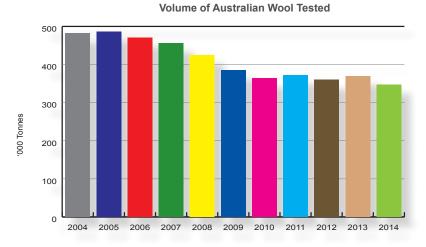
Hence, approximately 9 years ago, AWTA Ltd adopted a strategy to expand into related testing markets where independent, high quality, high integrity testing is a necessary part of the value chain and this approach has clearly been successful.

AWTA Ltd, as a consolidated group, now comprises 3 operating divisions in Australia (AWTA Raw Wool, AWTA Product Testing and Agrifood Technology), its wholly owned subsidiary NZWTA Ltd and its joint venture, JinAo Testing Co Ltd, which is managed through AWTA Product Testing.

In 2013/14, AWTA Raw Wool revenue decreased by 2.3% over the previous year. Wool production decreased during the year as poor seasonal conditions in many areas, combined with high sheep meat prices, led to higher sheep slaughter rates. Consequently, the weight of wool sampled by AWTA Raw Wool fell by 4.4%. The number of core tests conducted by AWTA Raw Wool decreased by 5.0%, broadly in line with the fall in wool production.

The industry expects wool production to fall again next year, with the AWI Wool Production Forecasting Committee predicting the 2014/15 clip will be 2.9% lower than this year.

The Raw Wool Division has always sought to achieve cost savings that offset wages inflation to allow it to minimise the fees that it charges for testing services. This strategy is particularly important in an environment where testing volumes and revenue are declining. In 2013/14, this was successful to the extent that fees for 2014/15 were increased by 2%, which was less than the wage inflation rate



AWTA Ltd purchased Agrifood Technology in 2008 and 2013/14 is the sixth full year that it has operated under AWTA Ltd ownership. Agrifood Technology has now successfully established its independence within the deregulated wheat industry, securing a broad range of wheat industry clients. It has also significantly grown its business in the processed and fresh food and the hay and fodder sectors, which now generate a significant proportion of Agrifood Technology's revenue, providing some insulation against the seasonal impacts inherent in the grain industry. In addition, Agrifood Technology has established a laboratory in Perth and is growing its client base in Western Australia. During 2013/14, total operating income at Agrifood Technology increased by approximately 5%.

Agrifood Technology further expanded its testing scope late in 2013/14 when it commenced operating a microbiological testing laboratory in Melbourne which will provide the basis for further revenue growth in 2014/15 and later years.

The market that AWTA Product Testing serves has been depressed for a number of years. While this continued to be the case in the retail, manufacturing and particularly the automotive industries throughout 2013/14, the Division has seen a recovery in the revenue it earns from the building materials sector. Total Revenue for AWTA Product Testing increased by approximately 3% in the year under review. This enabled the Division to again achieve a positive operating contribution despite the difficult market conditions.

JinAo Testing Co Ltd maintained its revenue base during 2013/14, and continues to operate profitably. The majority of JinAo testing was conducted for Australian customers importing Chinese products with a growing base of local processors of Australian wool looking to JinAo to provide specialist services

NZWTA achieved a significant increase in operating revenue in 2013/14, despite the ongoing fall in wool production in New Zealand as farmers convert to dairy. The NZWTA strategy of broadening the scope of tests that it offers the wool industry and growing its textile testing income has been successful, providing AWTA with a healthy return on the capital that it has invested in NZWTA. The AWTA group is currently adapting the software systems used to run NZWTA's Napier laboratory so that they can also be utilised in Australia, improving synergies between the raw wool laboratories and reducing cost.

AWTA invests its funds in various asset classes in accordance with a balanced investment policy which is regularly reviewed by the Board. The strength of the Company's balance sheet allows it to take a long-term approach to investment and Directors accept that there is a risk of volatility as we have seen in recent years. Equity markets performed strongly during 2013/14, and this had a positive impact on AWTA's non-operating revenue.

Mr Geoff Power served as a Director of AWTA Ltd for 2 years before standing down in December 2013 to make way for the appointment of Mr Geoff Fisken. I would like to thank Mr Power for his valued contribution to the Company.

I would also like to pay tribute to all the staff that have achieved 20, 30 and 40 year service anniversaries during the past year and acknowledge their contribution to the Company. AWTA Ltd has a proud tradition of long service, a rare feat in most Australian companies.

Finally, I wish to express my personal thanks to the Chief Executive, Michael Jackson, all Directors and the Company's employees for their support, contribution and dedicated service during 2013/14.

D.G. McGAUCHIE AO

# MANAGING DIRECTOR'S INTRODUCTION

The AWTA Ltd Group reported an overall profit of \$2.924 million for 2013/14. This is an improvement on the underlying profit achieved in 2012/13, primarily due to strong non-operating income.

It is pleasing to report that all of the operating divisions in Australia and NZWTA have made a positive contribution during 2013/14. In his report, the Chairman comments on the need for AWTA Ltd to have a broad revenue base and there is no doubt that financial success in these operating divisions is instrumental in minimising raw wool fees.

The Company remains financial stable and is well placed to continue to provide services that add value to the wool, textile, agricultural and manufacturing industries.

Following is a summary of the financial performance during 2013/14 and a brief report on each operating division with the AWTA Ltd Group.



MR M.A. JACKSON MANAGING DIRECTOR

# **FINANCIAL SUMMARY**

# **COMPARATIVE PROFIT & LOSS STATEMENT**

	2014 \$'000s	2013 \$'000s
Revenue	Ψ 0003	Ψ 0003
Revenue from services	35,144	34,785
Revenue from investments	4,140	2,936
Profit on sale of surplus sample material	1,310	1,014
Consulting income	211	170
Rental income	443	348
Other income	606	6,071
Total revenue	41,854	45,324
Expenses		
Operating and administrative expenses	(38,601)	(36,587)
Unrealised impairment of financial assets	0	(46)
Realised losses on sale of investments	(329)	(596)
Total expenses	(38,930)	(37,229)
Net Profit/(Loss)	2,924	8,095



# **AWTA RAW WOOL**

#### **OVERVIEW**

AWTA Raw Wool Australia is the largest division within AWTA Ltd and is comprised of:

- Sampling Operations;
- Raw Wool Laboratories;
- Data Processing Operations; and
- Technical & Quality Control.

During 2013/14, AWTA Raw Wool Australia operated two laboratories located in Melbourne (servicing clients in Victoria, New South Wales, Queensland, South Australia and Tasmania) and Perth (servicing clients in Western Australia).

#### **CAPABILITIES**

Each laboratory provides certified testing of Yield & Micron, Staple Length & Strength and Colour for raw wool. Certified testing of scoured wool is also conducted for a range of attributes including regain and grease content. In addition, AWTA Raw Wool offers non-certified report testing of raw wool, scoured & carbonised wool and speciality fibres such as Mohair, Alpaca and Cashmere.

The number of bales core sampled for certified tests decreased by 4.6% during 2013/14 with 2.01 million bales sampled compared with 2.10 million bales during the previous season. Bales sampled decreased in all states except Western Australia which experienced a 2% increase thanks to good seasonal conditions.

The number of sale lots tested for Yield & Micron results decreased by 5.0% to 347,062 lots during 2013/14 when compared with the previous season. The decline in sale lots tested was larger than the decline in bales tested indicating that the lot size has increased slightly in 2013/14. The number of sale lots tested for Staple Length & Strength declined by 5.4 % to 217,222 lots over the same period.

AWTA Raw Wool maintains a strong focus on the three key measures of performance:

- service delivery;
- improved efficiency/productivity; and
- sound technical performance.

#### Service

AWTA Raw Wool is committed to providing timely testing services as required by its customers. Samples are taken at 32 locations throughout Australia and dispatched overnight to one of AWTA's Raw Wool laboratories.

AWTA Ltd offers three levels of priority for service:

Normal: Test Certificates are available within 5 days of a

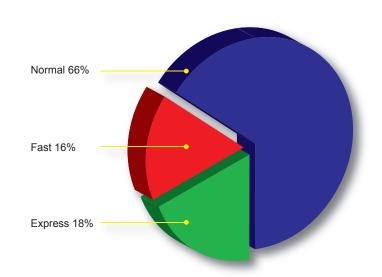
sample being taken.

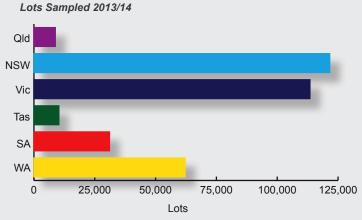
Fast: 95% of test Certificates are available within 3 days,

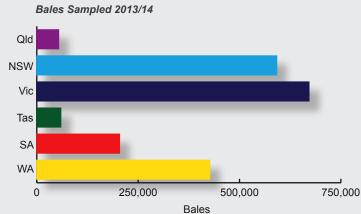
and the remainder the following day.

Express: 95% of test Certificates are available the following

morning, with the remainder the following day.







Test Type	Service Measure	Normal	Fast	Express
Yield & Micron	Average (days)	3.2	2.0	1.5
	% Total Tests within Service Target	98.5	97.3	96.7
Length & Strength	Average (days)	3.9	2.2	1.6
	% Total Tests within Service Target	95.1	95.4	95.4

During the 2013/14 season, service performance was, on average, well within the service time requirements. These times are all measured from the time of sampling, not when samples are received at a laboratory.

#### Efficiency

The efficiency of AWTA Raw Wool departments is monitored by measuring departmental productivity. Any increase in productivity reduces overall labour costs. Labour forms the majority of the cost of testing wool.

Sampling Productivity improved during 2013/14 due to improvements in the operations at wool coring locations, plus some improvements in MTS operations.

Testing Productivity, which reflects the efficiency of all laboratory operations, decreased by 1.8% during 2013/14. This decrease was largely due to the continuing decline in workload leading to more fragmented work patterns.

#### Technical

Confidence in wool trading requires confidence in the accuracy and precision of the wool test results. AWTA Raw Wool laboratories have rigorous quality control procedures, calibration schedules and test monitoring processes in place to ensure a high level of accuracy and precision. Trial samples are exchanged between AWTA Raw Wool laboratories to ensure consistency. Blind trials are also conducted twice weekly with overseas laboratories, with the results publicly reported at the annual International Wool Textile Organisation (IWTO) Conference.

During 2013/14, all AWTA laboratories reported ongoing stable and accurate performance to the IWTO Conference.

External queries from clients also serve as an indicator of technical performance. During 2013/14, some 1,413 results (0.25% of all tests) were queried by customers. Of these, 344 were reissued, representing less than 0.06% of the 564,284 Yield & Micron and Staple Length & Strength tests conducted.

#### **CHALLENGES**

The major challenge for Raw Wool operations is maintaining high levels of service and efficiency in an environment where revenue growth has declined in recent years and costs continue to escalate.

#### **INDUSTRY SUPPORT**

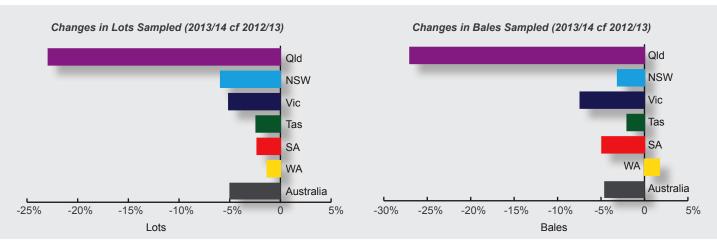
The Company focuses its industry activities, both domestically and internationally, on promoting the use and understanding of objective measurement. This is to ensure Australian wool maintains its pre-eminent position in the world wool textile market. AWTA Ltd continues to participate in International Wool Textile Organisation (IWTO) meetings where key staff contribute to the development and understanding of wool testing standards and procedures.

AWTA Ltd collates and publishes an extensive range of statistics and analytical reports which are provided free of charge to the wool industry. An example of this is the Key Test Data report - a monthly summary of the volume of wool tested and average results tested broken down by State and wool category. Other examples include a number of detailed micron split and Wool Statistical Area reports, which are crucial for the Australian Wool Production Forecasting Committee. This data, along with a range of other statistical reports, is available for download from the AWTA Ltd website.

AWTA Ltd continues to provide the TOPMARK Benchmarking service for wool processors free of charge. This service allows wool processors to compare their processing performance against the average of all other mills participating in the program. The objective of this program is to improve the efficiency of wool processors.

The Company continues to support the Australian wool industry by sponsoring and providing testing assistance for major sheep shows, ram sales and research trials. Details of supported events are listed on the AWTA Ltd website to assist with the promotion of sponsored events.

AWTA Ltd also hosts meetings with industry bodies and associations and is an active member of the Federation of Australian Wool Organisations (FAWO)



# **AWTA PRODUCT TESTING**

#### **OVERVIEW**

AWTA Product Testing is an independent materials testing facility available to government instrumentalities, industry and the general public. It possesses a diverse array of specialised testing equipment, available to industries within Australasia and internationally, which are operated by highly competent technicians.

# AWTA PRODUCT TESTING

# **CAPABILITIES**

The division has internationally recognised competencies in flammability, textiles, automotive, weathering, physical, chemical and mechanical testing.

AWTA Product Testing is able to provide extensive testing services encompassing the assessment of fibres, yarns, textiles, plastics, product flammability, automotive components, building products, glass, carpets/flooring materials, retail products, health care consumables, insulation materials, clothing and laminates. It has specialised capabilities in thermal conductivity, spectrophotometry, measurement of static electricity and retro-reflective performance.

#### LOOKING FORWARD

Using the efficiency improvements introduced over the last year, the division will continue to take the initiative in providing customers with better lead times, improved responsiveness and an increased testing capability.

The application of competitive pricing and value-added packages is expected to provide some impetus in a sluggish market as the product mix veers from the traditional textile testing towards building products. The division will continue to investigate diversification opportunities and expansion into niche areas with the express intention of increasing its revenue contribution.

# JINAO TESTING COMPANY

#### **OVERVIEW**

JinAo is a joint venture laboratory located in Nanjing, China and is a 50/50 venture between AWTA and JSIC Jiangsu, a division of China Inspection and Quarantine (CIQ).

#### **CAPABILITIES**

JinAo mainly focuses on textile and environmental testing of products predominantly of Chinese origin. Whilst it has a relatively small laboratory, it has a diverse and growing client base particularly in the Australian importing community as testing can be done at source with the security of the AWTA name behind it. JinAo also provides services to assist Chinese early stage processors to efficiently process Australian wool.



# LOOKING FORWARD

JinAo's challenge is to grow its revenue base and develop a solid and ongoing domestic client base. It will over time need to branch out into additional areas of testing and grow its expertise and diversity.

# AGRIFOOD TECHNOLOGY

#### **OVERVIEW**

Agrifood Technology has remained one of Australia's major provider of physical and chemical testing to the grain, horticultural, food and feed industries.



#### **CAPABILITIES**

Agrifood Technology is an independent, NATA ISO 17025 accredited and ISO 9001:2008 certified testing facility that operates in a competitive environment and is focussed on providing accurate results and rapid response times to meet the needs of our customers.

Effective 1st May 2014 Agrifood Technology commenced the exciting new phase of managing the on-site Microbiological Laboratory testing for H.J. Langdon Ingredients, a leading supplier of food ingredients to the local industry, located in Derrimut, Victoria.

A team of three microbiologists has been employed; all procedures and processes are being documented as it works towards gaining NATA accreditation. This will then allow Agrifood Technology to broaden its scope of testing and provide microbiological testing as an additional testing service which will improve its capability to service a wider range of clients.

The laboratories in Derrimut, Bibra Lake and Werribee are well equipped to conduct comprehensive analysis on a diverse range of food and feed products including grain quality, milling, dough rheology, end product assessment, nutritional labelling, allergen testing, pesticide residues, mycotoxins and microbiological analysis.

All laboratories are well supported by a team of 28 technical staff and 9 administrative staff who are highly experienced and committed to the accurate and timely provision of results.

Ongoing investment in technology has enabled Agrifood Technology to increase its testing capabilities and remain a significant provider of food safety testing for the horticultural and processed food sector.

Revenue from the FeedTest service acquired from the Victorian Department of Primary Industries has increased over the last twelve months. FeedTest has successfully secured an agreement with USA based Dairy Land Laboratories (an "A" grade National Forage Testing Association lab) to provide testing of carbohydrate and protein parameters to the Australian market. The 12 month agreement provides FeedTest with an opportunity to increase market share in a complimentary dairy sector.

#### LOOKING FORWARD

10

Expanding both Agrifood Technology's testing capabilities and client base will remain a priority over the next twelve months. In particular, the focus will be on marketing the newly acquired microbiological testing services in Derrimut to targeted clients and industry sectors and improving brand awareness through advertising and increased presence at field days, seminars and conferences.



# **NZWTA LTD**

#### **OVERVIEW**

NZWTA Ltd is New Zealand's leading wool and textile testing organisation, providing a comprehensive range of services to the wider textile industry. CAPABILITIES

The wool laboratory provides IWTO certification on a variety of tests covering greasy and scoured wool. The textiles operation offers a comprehensive range of tests covering fibres, fabrics, carpets, flammability, wool grease, and high-visibility products.

NZWTA Ltd is capable of testing wool and textiles materials from around the world. Where necessary, products can be imported through its permit as a Government-approved transitional facility which covers New Zealand's biosecurity measures.

NZWTA Ltd operates in a competitive environment. Where available, all testing is supported by ISO 17025 accreditation to give customers confidence in the accuracy of test results. The quality management system is supported by a focus on providing quality testing within service expectations to meet the needs of a wide customer base.

#### LOOKING FORWARD

NZWTA Ltd's Mission Statement is to provide leadership to industry through measurement, innovation, technology and service. A key part of exceeding customer expectations is the expansion of testing capabilities and introducing new innovative testing and service technologies that position NZWTA as a key partner in business. This is particularly relevant with the current challenges in the local sheep and textile manufacturing sectors.



# RESEARCH & DEVELOPMENT

During 2013/14, the Research and Development department worked on both internal and external projects in partnership with other industry organisations. Funding partners included Australian Wool Innovation (AWI), the Sheep CRC, Deakin University and the University of New England.

The input of commercial entities, including Country Road, The Merino Company and Foss into research projects is also acknowledged. During 2013/14, key research highlights included:

- completion of Round Trails for the Wool HandleMeter and the Wool ComfortMeter;
- IWTO Draft Test Methods for both the Wool Handlemeter and Wool Comfortmeter; and
- acceptance testing of prototype NIR systems developed by Foss.

During 2013/14, the key manufacturing outcomes were:

- completed development design of NextGen Laserscan for internal and external use;
- gained rights to manufacture Wool HandleMeter and Wool ComfortMeter from Sheep CRC;
- commenced a number of projects on electricity reduction; and
- started redevelopment of other key machinery to increase life.

# DIRECTORS' REPORT







AWTA PRODUCT TESTING







# 2013-2014 FINANCIAL STATEMENTS

# AUSTRALIAN WOOL TESTING AUTHORITY LTD

AND CONTROLLED ENTITY ABN: 43 006 014 106

# **DIRECTORS' REPORT**

The directors present their report, together with the financial statements of Australian Wool Testing Authority Ltd (the company) and the group, being the company and its controlled entity, for the year ended 30 June 2014 and Auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

#### PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN NATURE OF ACTIVITIES

The principal activities of the consolidated group during the financial year were raw wool, textiles, agricultural products and other materials testing, and computer services.

There were no significant changes in the nature of the consolidated group's principal activities during the financial year.

The Australian Wool Testing Authority Ltd (AWTA Ltd) is a Company Limited by Guarantee established to assist and 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.

Over the last 57 years, AWTA Ltd has built a highly successful business providing independent test information to its customers, primarily the wool industry in Australia.

The company has built and maintained a national and international reputation for technical expertise, commercial independence and professional integrity, while its corporate structure facilitates the minimisation of the fees that it charges for its services.

During the last 2 decades, wool production in Australia has fallen steadily and significantly, causing a consequent fall in testing volumes and AWTA Ltd revenue. The Company has responded to this situation with the objective of minimising fee increases for its raw wool clients by:

- · reducing costs by improving labour productivity and significantly reducing management overheads; and
- · diversification into related testing markets to improve profitability by growing revenue from non-wool sources.

#### **OPERATING RESULTS**

The net profit after tax of the consolidated group for the year was \$2.92 million (2013 net profit of \$8.10 million).

#### **REVIEW OF OPERATIONS**

AWTA Ltd, as a consolidated group, comprises of 3 operating divisions in Australia (AWTA Raw Wool, AWTA Product Testing and Agrifood Technology), its wholly owned subsidiary NZWTA Ltd and its joint venture, JinAo Testing Co Ltd, which is managed through AWTA Product Testing.

The financial performance of each division is separately monitored, with the cash return as a percentage of capital invested being the key measure adopted by the Board. In addition, key performance measures relating to service and technical areas are routinely monitored by the Board.

The reviews following summarise the operating performance of each section of the Company.

#### AWTA Raw Wool

Wool production declined in 2013/14 with AWTA Raw Wool testing 353.7 million kilograms of greasy wool, a decrease of 4.4% from the previous year. The industry expects wool production to fall again next year with the AWI Wool Production Forecasting Committee predicting that the 2014/15 clip will be 2.9% lower than this year, primarily as a result of recent high sheep slaughter rates.

The majority of Raw Wool revenue comes from presale testing of greasy wool. The number of core tests conducted by AWTA Raw Wool decreased by 5.0% from last year, broadly in line with the fall in wool production. In this situation, the AWTA Raw Wool Division is focussed on productivity gains to contain the cost of processing each test and thereby minimise the fee impact of diminishing volumes. This was successful to the extent that fees for 2014/15 were increased by 2%, which was less than the wage inflation rate.

#### AWTA Product Testing

The market that AWTA Product Testing services has been depressed for a number of years. While this continued to be the case in the retail, manufacturing and automotive industries throughout 2013/14, the Division has seen a recovery in the revenue it earns from the building materials sector. Overall, Operating Revenue for AWTA Product Testing increased by 3.3% in 2013/14. Expenditure increased by a similar amount and the Division achieved a positive operating contribution, which was marginally higher than 2012/13, despite the prolonged difficult market conditions.

JinAo Testing Co Ltd maintained its revenue base during 2013/14 and continues to operate profitably. The majority of JinAo testing was conducted for Australian customers importing Chinese products with a growing base of local processors of Australian wool looking to JinAo to provide specialist services.

#### NZWTA Ltd

NZWTA Ltd has achieved a significant increase in operating revenue in 2013/14, despite the ongoing fall in wool production in New Zealand as farmers convert to dairy. The NZWTA strategy of broadening the scope of tests that it offers the wool industry and growing its textile testing income has been successful. NZWTA continues to achieve a profit that provides an adequate return on the capital that AWTA Ltd has invested in it.

# Agrifood Technology

Agrifood Technology continued to grow its revenue base in 2013/14. As revenue from grain testing is highly dependent on seasonal conditions and ongoing structural changes in the wheat export industry, the Division has been actively extending its activities in the fresh and processed food sectors to counter this risk. This strategy has been successful, with total revenue growing by 4.8% despite a slight fall in the grain testing sector, the traditional customer base of Agrifood Technology. The Division further expanded its testing scope late in 2013/14 when it commenced operating a microbiological testing laboratory which will provide the basis for further revenue growth in 2014/15 and later years.

During 2013/14, the return on investment from Agrifood Technology remained healthy.

#### Non-operating Income

Although Non Operating Income was strong in 2013/14, reflecting the returns on funds invested in the financial markets, it was significantly lower than last year due to a one-off refund of payroll tax and land tax of \$5.50 million from state governments that was received in 2012/13.

#### Financial Position

The net assets of the consolidated group have increased by \$3.97 million from 30 June 2013 to \$91.66 million at the end of the financial year.

# INFORMATION ON THE DIRECTORS

#### Mr D.G. McGauchie AO

- Appointed as an independent director by the Members of AWTA Ltd on 29 October 1999
- Appointed as Deputy Chairman on 25 January 2001 and as Chairman on 19 February 2005
- Chairman of Remuneration & Appointments Committee
- Farmer and company director, having previously been active in national farming organisations
- Partner of C&E McGauchie Terrick West
- · Chairman of Nufarm Ltd and Australian Agricultural Company Ltd
- Director of a number of listed and unlisted companies, including James Hardie Industries plc & GrainCorp Ltd

#### Mr G.W. Dickinson

- Appointed as an independent director by the Members of AWTA Ltd on 18 March 2005
- Appointed as Deputy Chairman on 15 April 2005
- Chairman of Audit & Finance Committee
- Member of Remuneration & Appointments Committee
- Chairman of Rubicon Water Ltd and Mutual Trust Pty Ltd
- Director of Nareen Station Pty Ltd



#### Mr M.A. Jackson

- Managing Director of AWTA Ltd since 21 May 2001
- Member of Environment & Safety Committee
- Director of New Zealand Wool Testing Authority Ltd and JinAo Testing Company Ltd
- Trustee of the Australian Wool Education Trust

#### Mr M.D. Avery

- Appointed as the nominee director for Australian Council of Wool Exporters Inc on 22 November 2007
- Director of Australian Wool Exchange Ltd & MA Consulting Pty Ltd
- Member of Audit & Finance Committee
- General Manager Wool, Queensland Cotton Corporation

# (3)

#### Mr G.C. Fisken

- Appointed as the nominee director for WoolProducers Australia on 3 December 2013
- · President of WoolProducers Australia
- Director of Australian Wool Exchange Ltd, Sheep Industry Health & Welfare Pty Ltd, Livestock Biosecurity Network Pty Ltd and Black Creek Farming Pty Ltd
- Trustee of the Australian Wool Education Trust
- Chairman of Victorian Sheep & Goat Compensation Advisory Committee

#### Mr D.B. Ritchie

- Appointed as the nominee director for the Wool Scourers & Carbonisers of Australia Group of Australian Wool Processors Council Inc on 25 February 2011
- Member of Audit & Finance Committee
- President of Australian Council of Wool Exporters & Processors Inc
- General Manager of Victoria Wool Processors and Nikke Port Phillip Scouring



#### Dr P.D. Morgan

- Appointed as the nominee director for the Wool Textile Manufacturers of Australia Group of Australian Wool Processors Council Inc on 16 October 2009
- Executive Director of Australian Council of Wool Exporters & Processors Inc
- Executive Director of Private Treaty Wool Merchants of Australia Inc
- Director of International Fibre Centre Ltd
- Principal of Morgan Terrace Pty Ltd

# Mr G.W. Turner

- Appointed as the nominee director for Private Treaty Wool Merchants of Australia Inc on 17 October 2008
- President of Private Treaty Wool Merchants of Australia Inc



- Chairman of Environment & Safety Committee
- · Managing Director of Reeashbro Pty Ltd
- Director of Wallace Investments Pty Ltd

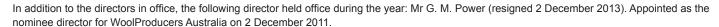


# Mr D.A. Webster

- Appointed as the nominee director for Australian Wool Innovation Ltd on 25 November 2008
- · Director of Australian Wool Innovation Ltd
- Member of Remuneration & Appointments Committee
- · Chairman of Athena Resources Ltd
- Director of Brolga Minerals Pty Ltd & Cobpen Co Investments Pty Ltd

#### Mr C.J. Wilcox

- Appointed as the nominee director for the National Council of Wool Selling Brokers of Australia Inc on 15 February 2008
- Member of Environment & Safety Committee
- Executive Director of the National Council of Wool Selling Brokers of Australia Inc
- Chairman of the International Wool Textile Organisation's Market Intelligence Committee
- Principal of Poimena Analysis & Trustee of Poimena Trust



# COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year:

Mr Charles Englander — Bachelor of Law, Master of Laws. Mr Englander has worked for AWTA Ltd for the past 30 years, performing legal and compliance roles. Mr Englander was appointed Company Secretary on 1 July 2002.

#### MEETINGS OF DIRECTORS

During the financial year, 6 meetings of directors and 7 committee meetings (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors'	Meetings		Finance mittee		Remuneration & ppointments Committee		nt & Safety nittee
	Number eligible	Number attended	Number eligible	Number attended	Number eligible	Number attended	Number eligible	Number attended
D.G. McGauchie AO	6	6	-	-	3	3	-	-
G.W. Dickinson	6	5	2	2	3	3	-	-
M.A. Jackson	6	6	-	-	-	-	2	2
M.D. Avery	6	5	2	2	-	-	-	-
G.C. Fisken	4	3	-	-	-	-	-	-
P.D. Morgan	6	6	-	-	-	-	-	-
G.M. Power	2	2	-	-	-	-	-	-
D.B. Ritchie	6	6	2	2	-	-	-	-
G.W. Turner	6	6	-	-	-	-	2	2
D.A. Webster	6	6	-	-	3	3	-	-
C.J. Wilcox	6	6	-	-	-	-	2	2

#### INDEMNIFYING OFFICERS

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

 The Company has paid premiums to insure directors and officers against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in their capacity as directors and officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

#### PROCEEDINGS ON BEHALF OF 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.

# AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration under section 307C of the Corporations Act 2001 in relation to the audit for the financial year is provided with this report.

#### MEMBER'S LIABILITY

The group is incorporated under the Corporations Act 2001 and is a group limited by guarantee. If the group is wound up, the Memorandum of Association states that each member is required to contribute to a maximum of \$50 each towards meeting any outstanding obligations of the group. At 30 June 2014, the amount that members of the group are liable to contribute if the group is wound up is \$300 (2013: \$300).

#### AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

#### LIKELY DEVELOPMENTS

The directors are not aware of any other future developments likely to have a significant effect on the operations of the consolidated group or on the expected results of those operations.

#### ASIC CLASS ORDER 98/100 ROUNDING OF AMOUNTS

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

This Report of the Directors is signed in accordance with a resolution of the Board of Directors and dated 25 August 2014 at Melbourne.

D.G. McGAUCHIE AO

CHAIRMAN

M.A. JACKSON MANAGING DIRECTOR

# **AUDITOR'S INDEPENDENCE DECLARATION**

To the directors of Australian Wool Testing Authority Ltd In relation to the independent audit for the year ended 30 June 2014, to the best of my knowledge and belief there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001; and
- No contraventions of any applicable code of professional conduct.

Stephen Schonberg,

**Partner** 

Pitcher Partners Melbourne

Molboarrio

25 August 2014

# AUSTRALIAN WOOL TESTING AUTHORITY LTD

AND CONTROLLED ENTITY

ABN: 43 006 014 106

# INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated	l Group	Parent Entity	
		2014	2013	2014	2013
		\$000	\$000	\$000	\$000
Revenue	2	37,198	36,395	33,505	33,285
Other income	2	2,570	7,603	2,297	7,471
Employee benefits expense		(24,763)	(23,663)	(22,743)	(21,893)
Depreciation & amortisation expense	3	(2,573)	(2,441)	(2,387)	(2,287)
Repairs & maintenance expense		(2,331)	(2,218)	(2,161)	(2,069)
Energy & utilities expense		(1,510)	(1,531)	(1,334)	(1,364)
Materials & supplies expense		(1,253)	(1,069)	(1,155)	(993)
Freight expense		(1,058)	(1,030)	(959)	(944)
Travel expense		(746)	(673)	(554)	(500)
Communications expense		(546)	(496)	(483)	(443)
Subcontract testing expense		(542)	(463)	(532)	(454)
Software expense		(530)	(491)	(424)	(416)
Property, Rates & Taxes expense		(394)	(373)	(282)	(287)
Insurance expense		(343)	(307)	(307)	(273)
Investment management expense		(337)	(252)	(337)	(252)
Consulting fees		(232)	(374)	(180)	(356)
Advertising & Sponsorship expense		(294)	(254)	(264)	(244)
Printing & stationery expense		(276)	(286)	(248)	(271)
Audit fees		(109)	(93)	(93)	(70)
Other expenses		(613)	(469)	(527)	(436)
Impairment charge on available-for-sale financial assets		-	(46)	-	(46)
Reassessment of fair value of available for sale financial assets disposed during the year		317	416	317	416
Realised gains on disposal of available for sale financial assets		1,769	910	1,769	910
Realised losses on disposal of available for sale financial assets		(329)	(596)	(329)	(596)
Profit/(Loss) before income tax	3	3,075	8,199	2,589	7,888
Income tax expense	4	(151)	(104)	-	_
Profit/(Loss) for the year		2,924	8,095	2,589	7,888

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated Group		Parent Entity	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Profit attributable to members of the parent entity	2,924	8,095	2,589	7,888
Revaluation increment on property, plant & equipment	-	4,707	-	4,451
Revaluation increment/(decrement) on available for sale financial assets	926	3,336	926	3,336
Adjustments from translation of foreign controlled entity	115	65	-	-
Total other comprehensive income	1,041	8,108	926	7,787
Total comprehensive income	3,965	16,203	3,515	15,675

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	Consolidated	Group	Parent En	tity
		2014	2013	2014	2013
		\$000	\$000	\$000	\$000
ASSETS		·	·	·	•
CURRENT ASSETS					
Cash and cash equivalents	7	6,886	5,197	6,067	4,602
Trade and other receivables	8	3,398	7,897	3,094	7,565
Inventories	9	972	857	972	857
Other current assets	16	1,011	1,140	915	1,062
TOTAL CURRENT ASSETS		12,267	15,091	11,048	14,086
NON-CURRENT ASSETS					
Trade and other receivables	8	-	-	1,193	1,419
Investments accounted for using the equity method	10	235	210	235	210
Financial assets	12	38,393	30,663	39,864	31,996
Property, plant and equipment	14	49,284	49,218	45,807	45,919
Deferred tax assets	18	49	49	-	-
Intangible assets	15	64	128	64	128
TOTAL NON-CURRENT ASSETS		88,025	80,268	87,163	79,672
TOTAL ASSETS		100,292	95,359	98,211	93,758
CURRENT LIABILITIES					
Trade and other payables	17	2,299	1,829	2,018	1,552
Provision for taxation	4	78	31	-	_
Short-term provisions	19	5,758	5,168	5,522	4,950
TOTAL CURRENT LIABILITIES		8,135	7,028	7,540	6,502
NON-CURRENT LIABILITIES					
Other long-term provisions	19	500	639	500	600
TOTAL NON-CURRENT LIABILITIES		500	639	500	600
TOTAL LIABILITIES	_	8.635	7.667	8.040	7,102
NET ASSETS		91,657	87,692	90,171	86,656
EQUITY					
Reserves	20	81,333	80,292	81,230	80,304
Retained earnings	20	10,324	7,400	8,941	6,352
TOTAL EQUITY	_	91,657	87,692	90,171	86,656
TOTAL EQUIT		91,007	01,092	90,171	00,000

The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

Consolidated Group	Retained Earnings \$000	Asset Revaluation Reserve \$000	Capital Maintenance Reserve \$000	Foreign Currency Translation Reserve \$000	Financial Assets Reserve \$000	Total \$000
Balance at 1 July 2012	(695)	22,784	50,000	(505)	(95)	71,489
Other comprehensive income	-	4,707	-	65	3,336	8,108
Profit for the year	8,095	-	-	-	-	8,095
Balance at 30 June 2013	7,400	27,491	50,000	(440)	3,241	87,692
Balance at 1 July 2013	7,400	27,491	50,000	(440)	3,241	87,692
Other comprehensive income	-	-	-	115	926	1,041
Profit for the year	2,924	-	-	-	-	2,924
Balance at 30 June 2014	10,324	27,491	50,000	(325)	4,167	91,657

Parent Entity	Retained Earnings \$000	Asset Revaluation Reserve \$000	Capital Maintenance Reserve \$000	Foreign Currency Translation Reserve \$000	Financial Assets Reserve \$000	Total \$000
Balance at 1 July 2012	(1,536)	22,612	50,000	-	(95)	70,981
Other comprehensive income	-	4,451	-	-	3,336	7,787
Profit for the year	7,888	-	-	-	-	7,888
Balance at 30 June 2013	6,352	27,063	50,000	-	3,241	86,656
Balance at 1 July 2013	6,352	27,063	50,000	-	3,241	86,656
Other comprehensive income	-	-	-	-	926	926
Profit for the year	2,589	-	-	-	-	2,589
Balance at 30 June 2014	8,941	27,063	50,000	-	4,167	90,171

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

Note	Consolida	ted Group
	2014	2013
	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	41,460	41,391
Payments to suppliers and employees	(39,444)	(38,883)
Dividends received	1,536	1,015
Interest received	518	595
Other income received	6,394	908
Taxation paid	(108)	(103)
Finance costs	-	<u>-</u>
Net cash provided by (used in) operating activities 23	10,356	4,923
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	203	238
Payment for available-for-sale financial assets	(18,461)	(15,827)
Proceeds from sale of financial assets	11,982	12,625
Purchase of property, plant and equipment	(2,391)	(2,143)
Net cash used in investing activities	(8,667)	(5,107)
Net decrease in cash held	1,689	(184)
Cash and cash equivalents at beginning of financial year	5,197	5,381
Cash and cash equivalents at end of financial year 7	6,886	5,197

The accompanying notes form part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

This financial report includes the consolidated financial statements and notes of Australian Wool Testing Authority Ltd (AWTA Ltd) and its controlled entity, New Zealand Wool Testing Authority Ltd (NZWTA Ltd) (the 'consolidated group' or the 'group').

The separate financial statements of the parent entity, AWTA Ltd, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*, effective as at 28 June 2010.

AWTA Ltd is a company Limited by Guarantee, incorporated and domiciled in Australia.

The financial report was authorised for issue on 25 August 2014 by the Board of Directors.

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The parent company is a not-for-profit entity and the subsidiary is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements, except for the cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### (a) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity (the 'company'), comprising the financial statements of the parent entity and all of the entities the parent controls. The company controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entities to affect the amount of its returns.

The financials statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the company and are de-recognised from the date that control ceases.

Non-controlled interests in the result of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position respectively.

#### **Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method.

The acquisition method requires an acquirer of the business must be identified. The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. The parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed at acquisition date. Acquisition related costs are expensed as incurred.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. If the fair value of the acquirer's interest is greater than consideration transferred, the surplus is immediately recognised in profit or loss as a bargain purchase.

#### (b) Income Tax

AWTA Ltd is exempt from income tax by virtue of Subdivision 50-B of the Income Tax Assessment Act 1997. The controlled entity, NZWTA Ltd, is subject to income tax in New Zealand.

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses

Current and deferred income tax expense (income) is charged or credited outside the profit or loss when the tax relates to items that are recognised outside the profit or loss.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### (c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Costs are assigned on the basis of weighted average costs.

#### (d) Property, Plant and Equipment

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

#### **Property**

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

#### Plant and equipment

Plant and equipment are measured on the cost basis less accumulated depreciation and impairment losses.

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 that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### Depreciation

The depreciable amount of all fixed assets including buildings, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Depreciation is recognised in the income statement.

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

Class of Fixed AssetDepreciation RateBuildings2-4%Plant and equipment10-33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

#### (e) Leases

Operating leases (net of any incentives received from the lessor), where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the period of the lease.

# (f) Financial Instruments

#### Classification

The consolidated entity classifies its financial instruments in the following categories: financial assets, loans and receivables, available-for-sale financial assets and financial liabilities. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

#### Financial assets

Trade debtors are carried at their book values less any provision for impairment. A provision for doubtful debts is recognised in the accounts when collection of any amounts owing to the consolidated group 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.

#### Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method

#### Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories and are measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. The cumulative gain or loss is held in equity until the financial asset is de-recognised, at which time the cumulative gain or loss held in equity is recognised in profit and loss.

# Financial liabilities

Trade creditors and other payables are recognised as amounts payable for goods and services that have been received.

Any amounts due under contracts of sale are measured at amortised cost using the effective interest rate method.

#### Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Based on an interpretation of AASB 139 – Financial Instruments: Recognition and Measurement, the group has considered that an impairment trigger exists if an investment has been declining below its accounting cost for a minimum of 15 months or if the market value of the investment is more than 35% below its accounting cost.

# Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

# (g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### (h) Interests in Joint Venture

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the consolidated group's interests are shown at Note 11.

The consolidated group's interest in the joint venture entity is brought to account using the equity method of accounting in the consolidated financial statements.

# (i) Intangibles

#### Identifiable Intangible Assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to each class of intangible asset. The useful lives of these intangible assets are assessed to be either finite or infinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement and charged on a straight line basis.

Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Amortisation is calculated based on the timing of projected cash flows over their useful lives, currently amortised over 5 years.

#### (j) Foreign Currency Transactions and Balances

# **Functional and Presentation Currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

# Transaction and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in other comprehensive income as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

#### **Group Companies**

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- · income and expenses are translated at average exchange rates for the period; and
- · retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with foreign currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed.

# (k) Employee Benefits

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

# (I) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### (m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Cash balances held by investment managers, from time to time, for reinvestment purposes, are treated as available-for-sale financial assets.

#### (n) Revenue and Other Income

Revenue from the provision of goods and services is recognised upon delivery of the service to the customer. Revenue from the sale of goods is recognised upon delivery of the goods to customers.

Interest revenue is recognised using the effective interest rate method taking into account the interest rate applied to the financial assets.

Dividend revenue, and associated franking credit rebate is recognised when the right to receive a dividend has been established.

Rent revenue from operating leases is recognised on a straight-line basis over the term of the lease.

All revenue is stated net of the amount of goods and services tax (GST).

#### (o) Trade and Other Payables

Trade and other payables represent the liability outstanding at reporting date for goods and services received by the group during the reporting period, which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

#### (p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the 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 balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### (q) Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### (r) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

#### (s) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

#### **Key Estimates**

Impairment

The group assesses impairment at each reporting date by evaluating conditions and events specific to the group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

# NOTE 2 REVENUE AND OTHER INCOME

NOTE 2 NEVEROLEAND OTHER MOOME	Consolidated Group	
	2014	2013
Revenue	\$000	\$000
Sales Revenue	, , , , ,	,,,,,
— Revenue from services	35,144	34,785
Revenue from investments	,	
Dividend revenue from other corporations	1,536	1,015
Interest from unrelated persons	518	595
more set in an inductor persons	2,054	1,610
Total Revenue	37,198	36,395
Other Income	01,100	00,000
Gains on disposal of property, plant and equipment	68	35
Foreign exchange gain	244	181
— Gain on disposal of surplus sample material	1,310	1,014
— Gain on sale of manufactured equipment	98	271
— Share of profit from joint venture	29	75
— Refund of payroll and land taxes	90	5,500
— Rent income	443	348
— Consulting income	211	170
— Other income	77	9
Total Other Income	2,570	7,603
NOTE 3 PROFIT FOR THE YEAR		
Expenses		
Finance costs	-	-
Impairment Loss		
— Trade receivables	10	3
Rental expense on operating leases		
— Minimum lease payments	226	166
Amortisation		
— Customer lists	64	64
Depreciation		
— Land & buildings	737	732
— Plant & equipment	1,772	1,645
NOTE / INCOME TAY EVENICE		
NOTE 4 INCOME TAX EXPENSE		
a. The components of tax expense comprise:		
Current tax	151	104
Deferred tax	-	-
	151	104
b. The prima facie tax on profit from ordinary activities before		
income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit/(loss) from ordinary activities of		
subsidiary before income tax at 28% (2013: 28%)		
— Consolidated group	140	94
Add:	140	54
Tax effect of:		
Other non-allowable items	16	
— Other non-allowable items	16	5
	156	99
Less:		
Recoupment of prior year tax losses not previously brought to account	5	5
Income tax attributable to entity	151	104
c. Current tax relates to:		
Income tax	78	31
Current tax liability	78	31
•		
d. Deferred tax relates to:		
Tax losses carried forward	49	49
Net Deferred tax assests	49	49

# NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

**Key Management Person** 

Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

Mr D. G. McGauchie AO	Chairman
Mr G. W. Dickinson	Deputy Chairman
Mr M. A. Jackson	Managing Director
Mr I. A. Ashman	General Manager Raw Wool
Mr M. D. Avery	Director - Non executive
Mr G. Fisken	Director - Non executive
Dr.P.D. Morgan	Director - Non executive
Mr G. M. Power	Director - Non executive
Mr D. B. Ritchie	Director – Non executive
Mr G. W. Turner	Director - Non executive
Mr. P. W. Walsh	Chief Financial Officer
Mr D. A. Webster	Director - Non executive
Mr C. J. Wilcox	Director - Non executive

Position

				Consolidated Group 2014 2013	
				\$000	\$000
Total remuneration paid to Key Management Personnel				1,572	1,526
Remuneration of Directors					
Amounts paid or payable to Directors or former Directors of AWTA Ltd				982	963
Directors base remuneration falls within the following bands:				No.	No.
	\$10,000	to	\$19,999	1	-
	\$20,000	to	\$29,999	1	-
	\$30,000	to	\$39,999	6	7
	\$70,000	to	\$79,999	1	1
	\$130,000	to	\$139,999	1	1
	\$470,000	to	\$479,999	1	1

# NOTE 6 AUDITORS' REMUNERATION

	Consolidated Group	
	2014	2013
	\$000	\$000
Remuneration of the auditor of the parent entity for:		
— auditing the financial report	78	73
— other consulting services	9	7
Remuneration of other auditors of subsidiary for:		
— auditing the financial report of the subsidiary	16	13
— taxation services	3	3

# NOTE 7 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	1,066	567
Short-term bank deposits	5,820	4,630
	6,886	5,197
Reconciliation of cash		
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:		
Cash and cash equivalents	6,886	5,197

#### NOTE 8 TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2014	2013
	\$000	\$000
CURRENT		
Trade receivables	2,923	3,044
Provision for impairment	(20)	(14)
	2,903	3,030
Amounts receivable from:		
Franking credit rebate from Australian Taxation Office	282	246
Payroll and land tax refund receivable from State Revenue Office of Victoria	-	4,618
— Other sundry debtors	213	3
Total current trade and other receivables	3,398	7,897

#### Provision for Impairment of Receivables

Current trade receivables are non-interest bearing loans and are generally on 30 days terms. A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired.

Movement in the provision for impairment of receivables is as follows:

Balance at beginning of the year	(14)	(17)
Charge for the year	(16)	-
Amounts written off	10	3
Balance at end of year	(20)	(14)

#### NOTE 9 INVENTORIES

# NOTE 10 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

Interest in joint venture entity	11	235	210
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#### NOTE 11 JOINT VENTURE

# Interest in Joint Venture Entity

AWTA Ltd has a 50% interest in the joint venture entity JinAo Testing Company Ltd, incorporated in People's Republic of China, which is involved in product testing.

The voting power held by AWTA Ltd is 50%. The interest in joint venture entity is accounted for in the consolidated statements using the equity method of accounting.

# NOTE 12 FINANCIAL ASSETS

NON CURRENT Available-for-sale financial assets	38.393	30,663
	,	
Total non-current assets	38,393	30,663
Available-for-sale financial assets comprise:		
Listed investments, at fair value	38.393	30.663

# NOTE 13 CONTROLLED ENTITY

Controlled Entity Consolidated	Country of Incorporation	Percentage	Owned (%)
Subsidiary of AWTA Ltd		2014	2013
New Zealand Wool Testing Authority Ltd	New Zealand	100	100

# NOTE 14 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group		
	2014	2013	
LAND AND BUILDINGS	\$000	\$000	
Freehold land at:			
— Independent valuation 2013			
Total Land	20,425	20,425	
	20,425	20,425	
Buildings at:			
— Independent valuation 2013	19,660	19,660	
Less accumulated depreciation	(448)	_	
Total Buildings	19,212	19,660	
Total Land and Buildings	39,637	40,085	
PLANT AND EQUIPMENT			
Plant and equipment:			
At cost	41,669	39,752	
Accumulated depreciation	(32,708)	(31,676)	
Plant and equipment under construction	686	1,057	
Total Plant and Equipment	9,647	9,133	
Total Property Plant and Engineers	40.004	10.010	
Total Property, Plant and Equipment	49,284	49,218	

The group's land and buildings were revalued at 30 June 2013 by independent valuers. Valuations were based on an assessment of the property portfolio's fair value less costs to sell, based on active market and continuing current use basis. Revaluation movements were recorded directly in the asset revaluation reserve.

# **Movements in Carrying Amounts**

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

	Freehold Land \$000	Buildings \$000	Plant and Equipment \$000	Total \$000
Consolidated Group:				
Balance at 1 July 2012	16,575	18,952	9,212	44,739
Additions	-	3	2,140	2,143
Disposals	-	-	(212)	(212)
Foreign exchange translation on opening balances	-	181	37	218
Revaluation increments	3,850	1,256	(399)	4,707
Depreciation expense		(732)	(1,645)	(2,377)
Balance at 30 June 2013	20,425	19,660	9,133	49,218
Additions	-	-	2,391	2,391
Disposals	-	-	(151)	(151)
Foreign exchange translation on opening balances	-	289	46	335
Depreciation expense		(737)	(1,772)	(2,509)
Balance at 30 June 2014	20,425	19,212	9,647	49,284

# NOTE 15 INTANGIBLE ASSETS

	Consolidated Group		
	2014		
	\$000	\$000	
Customer lists			
Cost	320	320	
Less: Accumulated amortisation & impairment	(256)	(192)	
Total intangibles	64	128	
Balance at the beginning of year	128	192	
Less: Amortisation	(64)	(64)	
Balance at the end of the year	64	128	

	Consolidated Group	
	2014	2013
	\$000	\$000
CURRENT		
Prepayments	1,011	1,140
NOTE 17 TRADE AND OTHER PAYABLES		
Unsecured liabilities		
Trade payables	1,148	1,066
Sundry payables and accrued expenses	1,151	763
	2,299	1,829
NOTE 18 TAX		
Deferred Tax Assets		
Balance at beginning of year	49	49
Charged directly to equity	-	-
Balance at end of year	49	49
NOTE 19 PROVISIONS		
Employee Entitlements		
Opening balance	5,807	5,831
Additional provisions	3,278	2,742
Amounts used	(2,827)	(2,766)
	6,258	5,807
Analysis of Total Provisions		
Current	5,758	5,168
Non-current	500	639
	6,258	5,807

# Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

#### NOTE 20 RESERVES

#### (a) Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets.

#### (b) Capital Maintenance Reserve

The capital maintenance reserve 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 on-going 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 land, buildings, equipment etc acquired from the Australian Wool Corporation for \$1) 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 Australian Accounting Standards, this is now described as retained earnings.

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 Accounting Standards, directors subsequently changed the title to "capital maintenance reserve", to emphasise its capital nature.

In determining the appropriate level for the capital maintenance reserve, 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;
- 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 funds 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 reserve as part of the annual budget process.

#### (c) Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on the translation of AWTA Ltd's foreign subsidiary.

#### (d) Financial Assets Reserve

The financial assets reserve records revaluation of financial assets.

# NOTE 21 CAPITAL AND LEASING COMMITMENTS

	Consolidated Group	
	2014	2013
(a) Operating Lease Commitments	\$000	\$000
Non-cancellable operating leases contracted for but not capitalised in		
the financial statements		
Payable — minimum lease payments		
— Not later than 12 months	177	159
— Between 12 months and 5 years	350	332
— Greater than 5 years	511	171
	1,038	662

The property leases of the parent entity, AWTA Ltd, are non-cancellable leases with 1 and 2 year terms, with rent payable monthly in advance. Contingent rental provisions within the lease agreements specify the minimum lease payments for each year. Options exist to renew the leases at the end of the 1 and 2 year terms for additional terms of 2 and 3 years. The leases allow for subletting of all lease areas.

The property leases of the subsidiary, NZWTA Ltd, relate to leasehold land. NZWTA Ltd has right of perpetual renewal over seven 21 year leases. Rental is reviewed at the renewal date for each lease. Renewal dates on the leases occur in 2017, 2018, 2022, 2023, 2029, 2031 and 2032.

(b) Capital Expenditure Commitments Capital expenditure commitments contracted for: Capital expenditure projects	508	668
(c) Operating Lease Income Receivables Income from non-cancellable operating leases contracted for but not recognised in the financial statements Receivable — minimum lease payments — Not later than 12 months	275	223
— Between 12 months and 5 years	253	382
·	528	605

The property leases are non-cancellable leases with terms between 1 and 3 years, with rent receivable in advance. Contingent rental provisions within the lease agreements specify the lease amounts for each year. Options exist for lessees to renew the leases at the end of their terms for additional terms of between 1 and 3 years.

#### NOTE 22 CONTINGENT LIABILITIES

There are no contingent liabilities at balance date for the Company.

# NOTE 23 CASH FLOW INFORMATION

	Consolidated Group	
	2014	2013
Reconciliation of Cash Flow from Operations with Profit after Income Tax	\$000	\$000
·		
Profit/(loss) after income tax	2,924	8,095
Non-cash flows in profit/(loss)		
Depreciation and amortisation	2,573	2,441
Reassessment of fair value on available-for-sale financial assets	(317)	(416)
Impairment charges on available-for-sale financial assets	-	46
Foreign exchange gain	(244)	(202)
Changes in provisions	481	(28)
Net gain on disposal of property, plant and equipment	(52)	(26)
Doubtful debts written off	10	3
Share of joint venture entity net profit after income tax and dividends	(29)	(75)
Changes in assets and liabilities		
(Increase)/decrease in trade and term receivables	4,479	(4,722)
Decrease in other current assets	129	36
(Increase)/decrease in inventories	(115)	86
Increase/(decrease) in trade payables and accruals	470	(319)
Increase in income taxes payable	47	4
Cash flow from operations	10,356	4,923

#### NOTE 24 RELATED PARTY TRANSACTIONS

The directors of AWTA Ltd have interests in organisations which utilise the services of the group in the ordinary course of business. All services are provided under the group's standard terms and conditions. Aggregate amount of services provided to:		
Organisations associated with directors	709	1,010

#### NOTE 25 FINANCIAL RISK MANAGEMENT

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, and loans to subsidiary. The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

Financial Assets		
Cash and cash equivalents	6,886	5,197
Loans and receivables	3,398	7,897
Available-for-sale financial assets	38,393	30,663
	48,677	43,757
Financial Liabilities		
Trade and other payables	2,299	1,829
	2,299	1,829

# **Financial Risk Management Policies**

The main risks the group is exposed to through its financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

# (a) Interest rate risk

The consolidated group'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 in classes of financial assets and financial liabilities.

Effective Weighted Average Interest Rates	Consolidated Group 2014 2013	
	%	%
Financial Assets		
Cash and cash equivalents	3.08	3.54

# (b) Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that short term cash facilities are maintained. Trade and other payables will be settled within 1 year.

#### c) Foreign exchange risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency.

#### Forward exchange contracts

The consolidated group enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering into the forward exchange contracts is to protect the consolidated group against unfavourable exchange rate movements for both contracted and anticipated future sales and purchases undertaken in foreign currencies. At balance date, there were no outstanding forward exchange contracts.

#### (d) Credit risk

The maximum exposure to credit risk by class of recognised financial assets at balance date is equivalent to the carrying value and classification of recognised financial assets (net of any provisions for impairment of those assets) as presented in the balance sheet and notes to the financial statements.

The group has no significant concentration of credit risk with any single counter party or group of counter parties.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 8.

Credit risk is managed on a group basis and reviewed regularly by the finance committee. Credit risk arises from exposures to customers as well as through deposits with financial institutions. The finance committee monitors credit risk by actively assessing the rating, quality and liquidity of counter parties:

- only banks and financial institutions with an "A" rating are utilised;
- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and
- customers that do not meet the group's strict credit policies may only purchase in cash or using recognised credit cards.

#### (e) Securities price risk

The group is exposed to securities price risk on investment held for medium to longer terms. Such risk is managed through diversification of investments across industries and geographical locations.

#### **Net Fair Values**

Fair value estimation

The fair values of financial assets and financial liabilities presented in the financial statements approximate their carrying values as presented in the statement of financial position.

Financial instruments measured at fair value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements.

The measurements used for available-for-sale financial assets are quoted prices in active markets for identical assets (Level 1).

The measurements used for land and buildings are based on external valuations received which take into account recent sales history and leasing transactions of comparable properties (Level 2).

#### NOTE 26 SUBSEQUENT EVENTS

There has been no matter or circumstance, which has arisen since 30 June 2014 that has significantly affected or may significantly affect:

- a. the operations, in financial years subsequent to 30 June 2014, of the consolidated entity, or
- b. the results of those operations, or
- c. the state of affairs, in financial years subsequent to 30 June 2014, of the consolidated entity.

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# AUSTRALIAN WOOL TESTING AUTHORITY LTD

AND CONTROLLED ENTITY ABN: 43 006 014 106

# **DIRECTORS' DECLARATION**

The directors of the company declare that:

- 1. The financial statements and notes, as set out on pages 17 to 31, are in accordance with the Corporations Act 2001 and:
  - a. comply with Accounting Standards; and
  - b. give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Company and consolidated group;
- In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

D.G. McGAUCHIE AO CHAIRMAN M.A. JACKSON

MANAGING DIRECTOR

Dated: 25 August 2014

# INDEPENDENT AUDIT REPORT



INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF AUSTRALIAN WOOL TESTING AUTHORITY LTD

#### Report on the Financial Report

We have audited the accompanying financial report of Australian Wool Testing Authority Ltd and controlled entity, which comprises the consolidated statements of financial position as at 30 June 2014, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

#### Opinion

In our opinion: the financial report of Australian Wool Testing Authority Ltd is in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date: and

ii. complying with Australian Accounting Standards - Reduced Disclosure Requirements and the Corporations Regulations 2001.

Stephen Schonberg,

Partner

25 August 2014

Pitcher Partners Melbourne



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# AWTA Product Testing





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