

DIRECTORS' REPORT

2011–2012
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 the group, being the company and its controlled entity, for the financial year ended 30 June 2012. 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 55 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 loss of the group for the year, after taking up an impairment charge of \$1.347 million, was \$1.230 million (2011 net profit of \$1.121 million).

REVIEW OF OPERATIONS

AWTA Ltd, as a consolidated group, 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.

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

The operating environment in the Australian wool industry has deteriorated slightly in 2011/12 after a considerable improvement during 2010/11. Wool prices progressively deteriorated during 2011/12, giving up some of the gains made in the previous year. In addition, during 2010/11, increasing prices encouraged growers to release wool previously stored on-farm to the market, leading to an increase in testing volumes. In 2011/12, this was not repeated and, consequently, the volume of wool tested was lower than in 2010/11 leading to a decrease in AWTA Raw Wool revenue. Despite the recent fall in price, particularly for fine wool, there is continuing optimism that wool production will slowly recover with the AWI Wool Production Forecasting Committee predicting a slight increase of 1.4% in wool production for 2012/13.

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 2.0% from last year. Staple length and strength testing activity also fell by a similar amount from the previous year with the proportion of core tests additionally measured for length and strength stable. Total revenue decreased by 1.9% from last year. Improved productivity and other cost saving initiatives partially offset inflation resulting in operating expenditure for the Raw Wool division being only 1.2% higher than 2010/11.

AWTA Product Testing

AWTA Product Testing division revenue increased by 9.3% from 2010/11 and the mix of test types changed considerably. Business from Australian textile manufacturers, which was once the division's largest customer group, continues to reduce as production moves off shore and as retail remains depressed. Revenue from this source is progressively being replaced by testing conducted on other products, particularly for the building materials, automotive and reflective goods industry sectors. Expenditure increased by 6.9% due to the greater workload than last year. As a consequence, operating contribution from AWTA Product Testing once again improved on the 2010/11 result.

JinAo Testing Co Ltd grew its revenue base steadily in 2011/12 to the point where it was profitable. 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 for specialist services.

NZWTA Ltd

The operating performance of NZWTA has improved considerably in recent years. NZWTA operating revenue increased due to the maintenance of a high market share in wool testing and a full year of revenue from the textile testing operation that was added to its Napier laboratory in January 2011. NZWTA Ltd has again achieved a satisfactory financial result in an environment where wool production continues to decline.

Agrifood Technology

Agrifood Technology continued to diversify its revenue base in 2011/12. As revenue from grain testing is highly dependant 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 2.7% despite a slight fall in the grain testing sector, the traditional customer base for Agrifood Technology. During 2011/12, the return on investment from Agrifood Technology remained healthy.

Non-operating Income

Income from investments was impacted by the ongoing deterioration in financial markets and, as a consequence, overall group revenue from sources other than testing services decreased by approximately 30%.

Unrealised Impairment Charges

In accordance with AASB 139 Financial Instruments: Recognition and Measurement, an impairment charge on available-for-sale investments of \$1.347 million has been taken up in the financial statements. The strength of AWTA Ltd's balance sheet allows for a long-term approach to investment and Directors accept there is a risk of volatility and periods of short-term negative returns under the investment policy that it has adopted.

Financial Position

The net assets of the consolidated group have decreased by \$1.4 million from 30 June 2011 to \$71.5 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 SE and 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 Systems Australia Ltd
- Director of Nareen Station Pty Ltd and Mutual Trust 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
- Member of Audit & Finance Committee
- General Manager - Wool, Queensland Cotton



Mr G.M. Power

- Appointed as the nominee director for WoolProducers Australia on 2 December 2011
- President of WoolProducers Australia
- Director of Australian Wool Exchange Ltd and Sheep Industry Health and Welfare Pty Ltd
- Councillor of National Farmers Federation Members Council



Mr D.B. Ritchie

- Appointed as the nominee director for the Wool Scourers and 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



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 Australian Wool Industries Secretariat Inc
- Chairman of Environment & Safety Committee
- Managing Director of Reeshbro 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 Brolga Minerals Pty Ltd
- Director of Pabula Pty Ltd, Nova Downs Pty Ltd, Athena Resources Ltd, Cobpen Co Investments Pty Ltd and Organics for Rural Australia



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 National Council of Wool Selling Brokers of Australia Inc
- Chairman of the International Wool Textile Organisation's Market Intelligence Committee
- Principal of Poimena Analysis and Trustee of Poimena Trust



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

- Mr D. R. Hamblin (resigned 30 November 2011). Appointed as the nominee director for the WoolProducers Australia on 19 October 2007.

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 28 years, performing legal and compliance roles. Mr Englander was appointed company secretary on 1 July 2002.

MEETINGS OF DIRECTORS

During the financial year, 7 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 | | Audit & Finance Committee | | Remuneration & Appointments Committee | | Environment & Safety Committee | |
|-------------------|---------------------|-----------------|---------------------------|-----------------|---------------------------------------|-----------------|--------------------------------|-----------------|
| | Number eligible | Number attended | Number eligible | Number attended | Number eligible | Number attended | Number eligible | Number attended |
| D.G. McGauchie AO | 7 | 7 | | | 1 | 1 | | |
| G.W. Dickinson | 7 | 7 | 3 | 3 | 1 | 1 | | |
| M.A. Jackson | 7 | 7 | | | | | 3 | 3 |
| M.D. Avery | 7 | 7 | 3 | 3 | | | | |
| D.R. Hamblin | 2 | 2 | | | | | | |
| P.D. Morgan | 7 | 7 | | | | | | |
| G.M. Power | 5 | 5 | | | | | | |
| D.B. Ritchie | 7 | 7 | 3 | 3 | | | | |
| G.W. Turner | 7 | 7 | | | | | 3 | 3 |
| D.A. Webster | 7 | 6 | | | 1 | 1 | | |
| C.J. Wilcox | 7 | 7 | | | | | 3 | 3 |

INDEMNIFYING OFFICERS OR AUDITOR

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

The auditor's independence declaration for the year ended 30 June 2012 has been received and is appended to this report.

MEMBER'S LIABILITY

The Company is incorporated under the Corporations Act 2001 and is a Company limited by guarantee. If the Company is wound up, the Memorandum of Association states that each member is required to contribute a maximum of \$50 each towards meeting any outstanding obligations of the Company. At 30 June 2012, the amount that members of the company are liable to contribute if the company is wound up is \$300 (2011: \$300).

AFTER BALANCE DATE EVENTS

In the opinion of the directors, there are no likely developments in the operations of the consolidated group known at the date of this report which have not been covered generally within the report.

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 17 August 2012 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 2012, 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

17 August 2012

AUSTRALIAN WOOL TESTING AUTHORITY LTD

AND CONTROLLED ENTITY

ABN: 43 006 014 106

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

| | Note | Consolidated Group | | Parent Entity | |
|--|------|--------------------|----------|---------------|----------|
| | | 2012 | 2011 | 2012 | 2011 |
| | | \$000 | \$000 | \$000 | \$000 |
| Revenue | 2 | 36,359 | 36,409 | 33,150 | 33,388 |
| Other income | 2 | 1,587 | 2,147 | 1,400 | 1,921 |
| Employee benefits expense | | (24,717) | (23,814) | (22,887) | (22,079) |
| Depreciation & amortisation expense | | (2,363) | (2,559) | (2,219) | (2,420) |
| Repairs & maintenance expense | | (2,345) | (2,376) | (2,259) | (2,320) |
| Energy & utilities expense | | (1,345) | (1,310) | (1,171) | (1,144) |
| Materials & supplies expense | | (1,118) | (1,016) | (1,028) | (920) |
| Freight expense | | (1,017) | (975) | (916) | (870) |
| Travel expense | | (738) | (635) | (564) | (480) |
| Property, Rates & Taxes expense | | (586) | (530) | (455) | (419) |
| Software expense | | (551) | (473) | (490) | (412) |
| Communications expense | | (450) | (459) | (396) | (401) |
| Printing & stationery expense | | (289) | (335) | (262) | (313) |
| Insurance expense | | (303) | (312) | (268) | (258) |
| Subcontract testing expense | | (371) | (280) | (359) | (276) |
| Investment management expense | | (253) | (236) | (253) | (236) |
| Consulting fees | | (150) | (228) | (136) | (206) |
| Advertising & Sponsorship expense | | (249) | (195) | (210) | (174) |
| Audit fees | | (83) | (188) | (69) | (175) |
| Share of losses of joint ventures | | - | (10) | - | (10) |
| Other expenses | | (479) | (701) | (481) | (641) |
| Impairment charge on available-for-sale financial assets | | (1,347) | (549) | (1,347) | (549) |
| Reassessment of fair value of available for sale financial assets disposed during the year | | 51 | 145 | 51 | 145 |
| Realised gains on disposal of available for sale financial assets | | 420 | 639 | 420 | 639 |
| Realised losses on disposal of available for sale financial assets | | (769) | (907) | (769) | (907) |
| Profit/(Loss) before income tax | 3 | (1,106) | 1,252 | (1,518) | 883 |
| Income tax expense | 4 | (124) | (131) | - | - |
| Profit/(Loss) for the year | | (1,230) | 1,121 | (1,518) | 883 |

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

| | Consolidated Group | | Parent Entity | |
|--|--------------------|-------|---------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| | \$000 | \$000 | \$000 | \$000 |
| Profit attributable to members of the parent entity | (1,230) | 1,121 | (1,518) | 883 |
| Revaluation increment on property, plant & equipment | (24) | 2,821 | - | 3,153 |
| Revaluation increment/(decrement) on available for sale financial assets | (203) | 349 | (203) | 349 |
| Adjustments from translation of foreign controlled entity | 40 | (12) | | |
| Total other comprehensive income | (187) | 3,158 | (203) | 3,502 |
| Total comprehensive income | (1,417) | 4,279 | (1,721) | 4,385 |

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

| | Note | Consolidated Group | | Parent Entity | |
|---|------|--------------------|---------------|---------------|---------------|
| | | 2012 \$000 | 2011 \$000 | 2012 \$000 | 2011 \$000 |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 7 | 5,381 | 5,814 | 4,918 | 5,494 |
| Trade and other receivables | 8 | 3,175 | 3,402 | 2,812 | 3,043 |
| Inventories | 9 | 943 | 1,005 | 943 | 1,005 |
| Other current assets | 17 | 1,176 | 1,310 | 1,095 | 1,213 |
| TOTAL CURRENT ASSETS | | 10,675 | 11,531 | 9,768 | 10,755 |
| NON-CURRENT ASSETS | | | | | |
| Trade and other receivables | 8 | - | - | 1,546 | 1,636 |
| Investments accounted for using the equity method | 10 | 119 | 86 | 119 | 86 |
| Financial assets | 12 | 23,721 | 24,118 | 24,961 | 25,340 |
| Property, plant and equipment | 15 | 44,739 | 44,646 | 41,854 | 41,704 |
| Deferred tax assets | 19 | 49 | 49 | - | - |
| Intangible assets | 16 | 192 | 256 | 192 | 256 |
| TOTAL NON-CURRENT ASSETS | | 68,820 | 69,155 | 68,672 | 69,022 |
| TOTAL ASSETS | | 79,495 | 80,686 | 78,440 | 79,777 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 18 | 2,148 | 2,163 | 1,839 | 1,747 |
| Provision for taxation | 4 | 27 | 93 | - | - |
| Short-term provisions | 20 | 5,127 | 4,984 | 4,949 | 4,820 |
| TOTAL CURRENT LIABILITIES | | 7,302 | 7,240 | 6,788 | 6,567 |
| NON-CURRENT LIABILITIES | | | | | |
| Other long-term provisions | 20 | 704 | 540 | 671 | 508 |
| TOTAL NON-CURRENT LIABILITIES | | 704 | 540 | 671 | 508 |
| TOTAL LIABILITIES | | 8,006 | 7,780 | 7,459 | 7,075 |
| NET ASSETS | | 71,489 | 72,906 | 70,981 | 72,702 |
| EQUITY | | | | | |
| Reserves | 21 | 72,184 | 72,301 | 72,517 | 72,650 |
| Retained earnings | | (695) | 605 | (1,536) | 52 |
| TOTAL EQUITY | | 71,489 | 72,906 | 70,981 | 72,702 |

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

| | Retained Earnings \$000 | Asset Revaluation Reserve \$000 | Capital Maintenance Reserve \$000 | Foreign Currency Translation Reserve \$000 | Financial Assets Reserve \$000 | Total \$000 |
|--------------------------------|----------------------------|------------------------------------|--------------------------------------|---|-----------------------------------|----------------|
| Consolidated Group | | | | | | |
| Balance at 1 July 2010 | (516) | 19,987 | 50,000 | (533) | (311) | 68,627 |
| Other comprehensive income | | 2,821 | | (12) | 349 | 3,158 |
| Profit for the year | 1,121 | | | | | 1,121 |
| Balance at 30 June 2011 | 605 | 22,808 | 50,000 | (545) | 38 | 72,906 |
| Other comprehensive income | | (24) | | 40 | (203) | (187) |
| Prior year adjustment | (70) | | | | 70 | - |
| Profit/(Loss) for the year | (1,230) | | | | | (1,230) |
| Balance at 30 June 2012 | (695) | 22,784 | 50,000 | (505) | (95) | 71,489 |

| | Retained Earnings \$000 | Asset Revaluation Reserve \$000 | Capital Maintenance Reserve \$000 | Foreign Currency Translation Reserve \$000 | Financial Assets Reserve \$000 | Total \$000 |
|--------------------------------|----------------------------|------------------------------------|--------------------------------------|---|-----------------------------------|----------------|
| Parent Entity | | | | | | |
| Balance at 1 July 2010 | (831) | 19,459 | 50,000 | | (311) | 68,317 |
| Other comprehensive income | | 3,153 | | | 349 | 3,502 |
| Profit for the year | 883 | | | | | 883 |
| Balance at 30 June 2011 | 52 | 22,612 | 50,000 | | 38 | 72,702 |
| Other comprehensive income | | | | | (203) | (203) |
| Prior year adjustment | (70) | | | | 70 | - |
| Profit/(Loss) for the year | (1,518) | | | | | (1,518) |
| Balance at 30 June 2012 | (1,536) | 22,612 | 50,000 | | (95) | 70,981 |

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

| | Note | Consolidated Group 2012 \$000 | 2011 \$000 |
|--|------|-------------------------------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 39,956 | 38,944 |
| Payments to suppliers and employees | | (39,202) | (38,254) |
| Dividends received | | 1,141 | 1,983 |
| Interest received | | 637 | 473 |
| Other income received | | 420 | 639 |
| Finance costs | | - | - |
| Net cash provided by (used in) operating activities | 24 | 2,952 | 3,785 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of property, plant and equipment | | 168 | 378 |
| Proceeds from sale of land held for resale | | - | 5,270 |
| Proceeds from sale of investment property | | - | 430 |
| Payment for available-for-sale financial assets | | (13,511) | (13,847) |
| Proceeds from sale of financial assets | | 12,456 | 10,379 |
| Purchase of property, plant and equipment | | (2,498) | (2,481) |
| Net cash provided by (used in) investing activities | | (3,385) | 129 |
| Net increase/(decrease) in cash held | | (433) | 3,914 |
| Cash and cash equivalents at beginning of financial year | | 5,814 | 1,900 |
| Cash and cash equivalents at end of financial year | 7 | 5,381 | 5,814 |

The accompanying notes form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 17 August 2012 by the Board of Directors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

AWTA Ltd has elected to early adopt the Australian Accounting Standards – Reduced Disclosure Requirements as set out in AASB 1053:

Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements.

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 incorporate the assets, liabilities and results of the entity controlled by AWTA Ltd at reporting date. A controlled entity is any entity over which AWTA Ltd has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

Details of the controlled entity are contained in Note 13 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated in full on consolidation. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with those adopted by the parent entity.

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 Asset | Depreciation Rate |
|----------------------|-------------------|
| Buildings | 2-4% |
| Plant and equipment | 10-33% |

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.

(l) 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.

(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

| | Consolidated Group | |
|--|---------------------------|---------------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| Revenue | | |
| Sales Revenue | | |
| — Revenue from services | 34,600 | 33,899 |
| Revenue from investments | | |
| — Dividend revenue from other corporations | 1,141 | 1,983 |
| — Interest from unrelated persons | 618 | 527 |
| | 1,759 | 2,510 |
| Total Revenue | 36,359 | 36,409 |
| Other Income | | |
| — Gains on disposal of property, plant and equipment | 72 | 220 |
| — Gains on disposal of investment property | - | 98 |
| — Gain on disposal of surplus sample material | 1,055 | 1,010 |
| — Rent income | 300 | 226 |
| — Consulting income | 135 | 241 |
| — Other income | 25 | 352 |
| Total Other Income | 1,587 | 2,147 |

NOTE 3 PROFIT FOR THE YEAR

| | Consolidated Group | |
|------------------------------------|---------------------------|--------------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| Expenses | | |
| Finance costs | - | - |
| Foreign Exchange (gains)/losses | (29) | 203 |
| Impairment Loss | | |
| — Trade receivables | 17 | 11 |
| Rental expense on operating leases | | |
| — Minimum lease payments | 172 | 180 |
| Amortisation | | |
| — Customer lists | 64 | 64 |
| Depreciation | | |
| — Land & buildings | 731 | 715 |
| — Plant & equipment | 1,567 | 1,780 |

NOTE 4 INCOME TAX EXPENSE

| | Consolidated Group | |
|---|---------------------------|--------------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| a. The components of tax expense comprise: | | |
| Current tax | 124 | 131 |
| Deferred tax | - | - |
| | 124 | 131 |
| 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% (2011: 30%) | | |
| — Consolidated group | 115 | 111 |
| Add: | | |
| Tax effect of: | | |
| — Other non-allowable items | 7 | 23 |
| | 122 | 134 |
| Less: | | |
| Recoupment of prior year tax losses not previously brought to account | (2) | 3 |
| Income tax attributable to entity | 124 | 131 |
| c. Current tax relates to: | | |
| Income tax | 27 | 49 |
| Current tax liability | 27 | 49 |
| d. Deferred tax relates to: | | |
| Tax losses carried forward | 49 | 49 |
| Net Deferred tax assests | 49 | 49 |

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

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

| Key Management Person | Position |
|-----------------------|--|
| 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 D. R. Hamblin | Director – Non executive (resigned 22 November 2011) |
| Mr G. M. Power | Director – Non executive |
| Mr D. B. Ritchie | Director – Non executive |
| Dr P. D. Morgan | 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 |

| | 2012 \$000 | 2011 \$000 |
|---|---------------|---------------|
| Total remuneration paid to Key Management Personnel | 1,495 | 1,453 |
| Remuneration of Directors | | |
| Amounts paid or payable to Directors or former Directors of AWTALtd | 937 | 920 |
| Directors remuneration falls within the following bands: | No. | No. |
| \$10,000 to \$19,999 | 1 | 1 |
| \$20,000 to \$29,999 | 1 | 1 |
| \$30,000 to \$39,999 | 6 | 6 |
| \$60,000 to \$69,999 | 1 | 1 |
| \$120,000 to \$129,999 | 1 | 1 |
| \$470,000 to \$479,999 | 1 | 1 |

NOTE 6 AUDITORS' REMUNERATION

| | Consolidated Group | |
|---|--------------------|---------------|
| | 2012 \$000 | 2011 \$000 |
| Remuneration of the auditor of the parent entity for: | | |
| — Auditing the financial report | 70 | 175 |
| Remuneration of other auditors of subsidiary for: | | |
| — Auditing the financial report of the subsidiary | 12 | 13 |
| — Taxation services | 2 | 3 |

NOTE 7 CASH AND CASH EQUIVALENTS

| | Consolidated Group | |
|---|--------------------|---------------|
| | 2012 \$000 | 2011 \$000 |
| Cash at bank and in hand | 671 | 564 |
| Short-term bank deposits | 4,710 | 5,250 |
| | 5,381 | 5,814 |
| 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 | 5,381 | 5,814 |

NOTE 8 TRADE AND OTHER RECEIVABLES

| | Consolidated Group | |
|--|---------------------------|--------------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| CURRENT | | |
| Trade receivables | 2,840 | 2,821 |
| Provision for impairment | (17) | (15) |
| | <u>2,823</u> | <u>2,806</u> |
| Amounts receivable from: | | |
| — Franking credit rebate from Australian Taxation Office | 272 | 558 |
| — Other sundry debtors | 80 | 38 |
| Total current trade and other receivables | <u>3,175</u> | <u>3,402</u> |

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:

| | 2012 | 2011 |
|----------------------------------|--------------|--------------|
| | \$000 | \$000 |
| Balance at beginning of the year | (15) | (26) |
| Charge for the year | (17) | (15) |
| Amounts written off | 15 | 26 |
| Balance at end of year | <u>(17)</u> | <u>(15)</u> |

NOTE 9 INVENTORIES

| | Consolidated Group | |
|----------------------|---------------------------|--------------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| CURRENT | | |
| Materials & supplies | <u>943</u> | <u>1,005</u> |

NOTE 10 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

| | Note | Consolidated Group | |
|----------------------------------|-------------|---------------------------|--------------|
| | | 2012 | 2011 |
| | | \$000 | \$000 |
| Interest in joint venture entity | 11 | <u>119</u> | <u>86</u> |

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

| | Consolidated Group | |
|--|---------------------------|---------------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| NON CURRENT | | |
| Available-for-sale financial assets | 23,721 | 24,118 |
| Total Non-current Assets | <u>23,721</u> | <u>24,118</u> |
| Available-for-sale financial assets comprise: | | |
| Listed investments, at fair value | <u>23,721</u> | <u>24,118</u> |

NOTE 13 CONTROLLED ENTITY

| Controlled Entity Consolidated | Country of Incorporation | Percentage Owned (%) | |
|--|---------------------------------|-----------------------------|-------------|
| | | 2012 | 2011 |
| Subsidiary of AWTA Ltd | | | |
| New Zealand Wool Testing Authority Ltd | New Zealand | 100 | 100 |

NOTE 14 INVESTMENT PROPERTY

| | Consolidated Group | |
|---|--------------------|---------------|
| | 2012 \$000 | 2011 \$000 |
| Balance at beginning of year | - | 342 |
| Transfer from property, plant and equipment | - | - |
| Disposal during the year | - | 342 |
| Balance at end of year | - | - |

The fair value model is applied to investment property. Investment properties are revalued on a regular basis. Values are based on an active liquid market value and are performed by a registered independent valuer.

NOTE 15 PROPERTY, PLANT AND EQUIPMENT

| | Consolidated Group | |
|--|--------------------|---------------|
| | 2012 \$000 | 2011 \$000 |
| LAND AND BUILDINGS | | |
| Freehold land at: | | |
| — Independent valuation 2011 | 16,575 | 16,575 |
| Total Land | 16,575 | 16,575 |
| Buildings at: | | |
| — Independent valuation 2011 | 19,683 | 19,648 |
| Less accumulated depreciation | (731) | - |
| Total Buildings | 18,952 | 19,648 |
| Total Land and Buildings | 35,527 | 36,223 |
| PLANT AND EQUIPMENT | | |
| Plant and equipment: | | |
| At cost | 38,779 | 43,175 |
| Accumulated depreciation | (30,967) | (35,493) |
| Plant and equipment under construction | 1,400 | 741 |
| Total Plant and Equipment | 9,212 | 8,423 |
| Total Property, Plant and Equipment | 44,739 | 44,646 |

The group's land and buildings were revalued at 30 June 2011 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 2010 | 14,645 | 17,998 | 9,535 | 42,178 |
| Additions | | 156 | 2,325 | 2,481 |
| Disposals | | | (178) | (178) |
| Foreign exchange translation on opening balances | | (139) | (22) | (161) |
| Revaluation increments/ (decrements) | 1,930 | 2,348 | (1,457) | 2,821 |
| Depreciation expense | | (715) | (1,780) | (2,495) |
| Balance at 30 June 2011 | 16,575 | 19,648 | 8,423 | 44,646 |
| Additions | | 1 | 2,497 | 2,498 |
| Disposals | | | (148) | (148) |
| Foreign exchange translation on opening balances | | 34 | 8 | 42 |
| Revaluation increments/ (decrements) | | | | |
| Depreciation expense | | (731) | (1,567) | (2,299) |
| Balance at 30 June 2012 | 16,575 | 18,952 | 9,212 | 44,739 |

NOTE 16 INTANGIBLE ASSETS

| | Consolidated Group | |
|---|--------------------|-------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| Customer lists | | |
| Cost | 320 | 320 |
| less: Accumulated amortisation & impairment | 128 | 64 |
| Total intangibles | 192 | 256 |
| Balance at the beginning of year | 256 | 320 |
| less: Amortisation | 64 | 64 |
| Balance at the end of the year | 192 | 256 |

NOTE 17 OTHER ASSETS

| | Consolidated Group | |
|-------------|--------------------|-------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| CURRENT | | |
| Prepayments | 1,176 | 1,310 |

NOTE 18 TRADE AND OTHER PAYABLES

| | Consolidated Group | |
|--------------------------------------|--------------------|-------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| CURRENT | | |
| Unsecured liabilities | | |
| Trade payables | 1,044 | 1,161 |
| Sundry payables and accrued expenses | 1,104 | 1,002 |
| | 2,148 | 2,163 |

NOTE 19 TAX

| | Consolidated Group | |
|------------------------------|--------------------|-------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| NON-CURRENT | | |
| Deferred Tax Assets | | |
| Balance at beginning of year | 49 | 49 |
| Charged directly to equity | - | - |
| Balance at end of year | 49 | 49 |

NOTE 20 PROVISIONS

| | Consolidated Group | |
|-------------------------------------|--------------------|---------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| Employee Entitlements | | |
| Opening balance | 5,524 | 5,299 |
| Additional provisions | 2,864 | 2,568 |
| Amounts used | (2,557) | (2,343) |
| | 5,831 | 5,524 |
| Analysis of Total Provisions | | |
| Current | 5,127 | 4,984 |
| Non-current | 704 | 540 |
| | 5,831 | 5,524 |

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 21 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 22 CAPITAL AND LEASING COMMITMENTS

| | Consolidated Group | |
|---|--------------------|-------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| (a) Operating Lease Commitments | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | |
| Payable — minimum lease payments | | |
| — Not later than 12 months | 108 | 114 |
| — Between 12 months and 5 years | 242 | 81 |
| — Greater than 5 years | 177 | 206 |
| | 527 | 401 |

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 2012, 2017, 2018, 2022, 2023 and 2029.

| | Consolidated Group | |
|--|--------------------|-------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| (b) Capital Expenditure Commitments | | |
| Capital expenditure commitments contracted for: | | |
| Capital expenditure projects | 714 | 891 |
| (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 | 342 | 133 |
| — Between 12 months and 5 years | 294 | 95 |
| | 636 | 228 |

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 23 CONTINGENT LIABILITIES

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

NOTE 24 CASH FLOW INFORMATION

| | Consolidated Group | |
|---|--------------------|-------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| Reconciliation of Cash Flow from Operations with Profit/after Income Tax | | |
| Profit(loss) after income tax | (1,230) | 1,121 |
| Non-cash flows in profit/(loss) | | |
| Depreciation and amortisation | 2,363 | 2,559 |
| Reassessment of fair value on available-for-sale financial assets | (51) | (145) |
| Impairment charges on available-for-sale financial assets | 1,347 | 549 |
| Foreign exchange (gain)/loss | (29) | 203 |
| Changes in provisions | 293 | 214 |
| Net gain on disposal of property, plant and equipment | (72) | (213) |
| Net gain on disposal of investment property | - | (98) |
| Doubtful debts written off | 15 | 11 |
| Share of joint venture entity net (profit)/loss after income tax and dividends | (26) | 10 |
| Changes in assets and liabilities | | |
| (Increase)/decrease in trade and term receivables | 227 | (401) |
| (Increase)/decrease in other current assets | 134 | (34) |
| (Increase)/decrease in inventories | 62 | (56) |
| Increase/(decrease) in trade payables and accruals | (15) | 38 |
| Increase/(decrease) in income taxes payable | (66) | 28 |
| Cash flow from operations | 2,952 | 3,785 |

NOTE 25 RELATED PARTY TRANSACTIONS

| | Consolidated Group | |
|--|--------------------|-------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| 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 | 892 | 887 |

NOTE 26 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:

| | Consolidated Group | |
|-------------------------------------|--------------------|--------|
| | 2012 | 2011 |
| | \$000 | \$000 |
| Financial Assets | | |
| Cash and cash equivalents | 5,381 | 5,814 |
| Loans and receivables | 3,175 | 3,402 |
| Available-for-sale financial assets | 23,721 | 24,118 |
| | 32,277 | 33,334 |
| Financial Liabilities | | |
| Trade and other payables | 2,148 | 2,163 |
| | 2,148 | 2,163 |

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.

| | Consolidated Group | |
|---------------------------|--------------------|------|
| | 2012 | 2011 |
| | % | % |
| Financial Assets | | |
| Cash and cash equivalents | 4.87 | 5.06 |

(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).

NOTE 27 SUBSEQUENT EVENTS

There has been no matter or circumstance, which has arisen since 30 June 2012 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2012, of the consolidated entity, or
- the results of those operations, or
- the state of affairs, in financial years subsequent to 30 June 2012, of the consolidated entity.

AWTA LTD ANNUAL REVIEW 2011-2012 | NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

AUSTRALIAN WOOL TESTING AUTHORITY LTD

AND CONTROLLED ENTITY

ABN: 43 006 014 106

DIRECTORS' DECLARATION

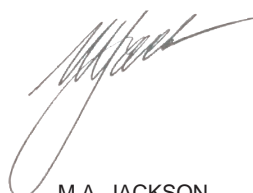
The directors of the company declare that:

- The financial statements and notes, as set out on pages 17 to 31, are in accordance with the Corporations Act 2001 and:
 - comply with Accounting Standards; and
 - give a true and fair view of the financial position as at 30 June 2012 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.



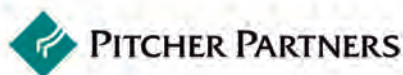
D.G. MCGAUCHIE AO
CHAIRMAN



M.A. JACKSON
MANAGING DIRECTOR

Dated: 17th August 2012

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 entities, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement 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 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 about 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 judgement, including the assessment of the risks of material misstatement in 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 and its controlled entity 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 2012 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;

A handwritten signature in black ink, appearing to read "Stephen Schonberg".

Stephen Schonberg,

Partner

Pitcher Partners

Melbourne

17 August 2012

A handwritten signature in black ink, appearing to read "P. K. P. K.".

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| Goulburn | 02 4821 8139 |
| Launceston | 03 6391 9124 |
| Newcastle | 02 4931 9195 |
| Portland | 03 5532 2986 |
| Sydney | 02 9681 1200 |



AWTA PRODUCT TESTING



NZWTA

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