

## financial statements

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# Directors' report

Your directors present their report on Australian Wool Innovation Limited for the year ended 30 June 2005.

## Directors

The following persons were directors of Australian Wool Innovation Limited during the whole of the financial year (except where indicated otherwise) and continue to hold office at the date of this report.

The Hon I M McLachlan AO

Mr B P van Rooyen

Dr C J Abell

Dr K J Bell

Mr W B Merriman

Mr H P Nivison

Mr P S Sykes

Mr J D O Boyd retired from the Board pursuant to Rule 13 of the Constitution at the end of the AGM held 19 November 2004.

Mr W B Merriman was elected a director of the Board pursuant to Rule 11 of the Constitution from the close of the AGM held 19 November 2004.

Information on directors and their experience can be found on page 2.

## Review of operations and results

	2005	2004
	\$'000	\$'000
Revenue	64,999	63,202
(Deficit)/Surplus from ordinary activities	(13,498)	8,816

## Principal activities

The principal activity of Australian Wool Innovation Limited as recorded in its adopted strategic plan is to drive research, development and innovation that will increase the long term profitability of Australian wool growers. To achieve that mission, the company receives funding from the Commonwealth Government of Australia by way of both a statutory levy imposed upon Australian wool growers and a capped matching contribution from the Government on behalf of Australian taxpayers.

## Matters subsequent to the end of the financial year

There have been no material financial matters subsequent to the end of the financial year.

## Likely developments and expected results of operations

Information on likely developments in the company's operations and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

## Company secretary

The company secretaries are Mr L Targ (former CEO and senior executive in the defence and aerospace industries with particular experience in strategic business development, finance and audit) and Mr C Chapman (Barrister and Solicitor, Dip Law, MBA, FAICD, FCIS).

## Meetings of directors

Director	Committees											
	Full meeting of directors		Finance & Audit		Falkiner Memorial Field Station		Remuneration & Appointments		Intellectual Property		Integration	
	A	B	A	B	A	B	A	B	A	B	A	B
I M McLachlan	13	13*	1	1 <sup>^</sup>	–	–	9	9	4	4	2	2*
B P van Rooyen	13	13	12	12*	–	–	9	9*	–	–	2	2
C J Abell	13	13	12	12	6	6*	–	–	4	4	2	2
K J Bell	13	13	–	–	6	6	–	–	–	–	–	–
J D O Boyd	6	4	8	7	–	–	–	–	–	–	–	–
W B Merriman	7	7	–	–	–	–	4	4	–	–	–	–
H P Nivison	13	13	4	4	6	6	5	5	4	4*	–	–
P S Sykes	13	13	–	–	–	–	–	–	4	3	2	2

A – Number of meetings held during the time the director held office

B – Number of meetings attended

\* – Indicates chairman

<sup>^</sup> – Attended as an acting member

The Board appointed an informal committee of directors known as the Integration Committee. This committee, chaired by the Chairman of the Board, has been appointed for a limited purpose and time: to advise the Board on possible options to form an alliance between Australian Wool Innovation Limited (AWI) and Australian Wool Services Limited (AWS).

### Remuneration report

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the innovation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency

In consultation with external remuneration consultants, the company has structured an executive remuneration framework that is market competitive, attracts and retains high calibre executives and is complementary to the reward strategy of the organisation.

### Directors' fees

All directors are non-executive, and fees and payments to directors reflect the demands which are made on, and the responsibilities of, the directors. All directors' fee payments are reviewed annually by the Board. The Board also has agreed to the advice of independent remuneration consultants to ensure directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of directors based on comparative roles in the external market. The Chairman and other non-executive directors receive additional fees for their membership on committees.

Superannuation payments are made in accordance with the Superannuation Guarantee legislation to the executive's choice of superannuation fund.

The Board undertakes an annual review of its performance and the performance of the Board committees against goals set at the start of the year. Bonuses are not payable to non-executive directors.

Details of the nature and amount of each element of the emoluments of each director of Australian Wool Innovation Limited are set out in the following table.

## Directors' report (continued)

### Remuneration report (continued)

#### Non-executive directors of Australian Wool Innovation Limited

Name	Primary		Post-employment		Total
	Directors' base fee	Committee fees	Superannuation	Separation	
	\$	\$	\$	\$	
I M McLachlan, Chairman	103,000	11,358	10,292	–	124,650
B P van Rooyen	51,500	11,358	5,657	–	68,515
C J Abell	51,500	16,508	6,121	–	74,129
K J Bell	51,500	4,859	5,072 <sup>(1)</sup>	–	61,431
J D O Boyd	20,157	1,717	1,968 <sup>(1)</sup>	–	23,842
W B Merriman	31,692	2,773	3,101	–	37,566
H P Nivison	51,500	15,450	6,025	–	72,975
P S Sykes	51,500	6,208	5,194 <sup>(1)</sup>	–	62,902
<b>Total</b>	<b>412,349</b>	<b>70,231</b>	<b>43,430</b>	<b>–</b>	<b>526,010</b>

<sup>(1)</sup> Payment made to a related body corporate of the director as provision for superannuation benefits

#### Executive pay

The executive pay consists of base pay, benefits and superannuation. These are structured at the executives' discretion as a total employment cost package, which may be delivered as a mix of cash and prescribed non-financial benefits. The value of non-financial benefits is calculated on the basis of the "total cost to the company", so that the total expense to the company is no more than it would have been had the company paid cash salary plus statutory superannuation contributions.

Superannuation payments are made in accordance with the Superannuation Guarantee legislation to the executive's choice of superannuation fund. Australian Wool Innovation Limited does not offer a defined benefits retirement plan.

There are no guaranteed pay increases in any senior executive contracts.

The annual salary packages (including superannuation) of the Chief Executive Officer and the General Managers at the date of this report fall into the bands shown in the table below:

\$	\$	2005
230,000 –	249,999	5
270,000 –	289,999	1
350,000 –	369,999	1

Two General Managers left during the financial year; no separation pay was paid or payable to either individual.

#### Executive Service Agreements

Remuneration and other terms of employment for the Chief Executive Officer and General Managers are formalised in service agreements. These service agreements state a salary package (which is calculated on a total cost to the company basis). None of these service agreements include bonus, share options or termination conditions in excess of six months.

#### Insurance of officers

During the year, Australian Wool Innovation Limited paid an insurance premium of \$41,725 to insure the directors and officers of the entity against liability and professional indemnity.

**Non-audit services**

The company may decide to appoint the auditor on assignments additional to their statutory audit duties where the auditor's experience with the company and/or the consolidated entity are important. However, since 11 June 2003 it has been the company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties only where PricewaterhouseCoopers' expertise and experience with the company are important.

Details of the amounts paid to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in Note 18 to the Financial Statements.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 60.

**Rounding of amounts**

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**Dividends Paid**

There have been no dividends paid or recommended for the 2005 financial year (2004: Nil).

**Share options**

There have been no share options granted to any directors or executives of the company.

**Environmental regulation**

The entity's operations are not subject to any particular or significant environmental regulations under either Commonwealth or State legislation.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

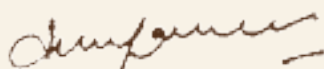
No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

**Statutory funding agreement obligations**

In addition to usual annual reporting requirements, there are additional reporting requirements imposed upon the company under Schedule 3 of the Statutory Funding Agreement between Australian Wool Innovation Limited and the Commonwealth of Australia. These are all dealt with in this annual report with the exception of a listing of the projects for which Commonwealth Matching Funds have been claimed. This will be provided separately to the Government.

A number of the matters identified in this report contain commercial in confidence information and the company has elected to exercise its prerogative to provide that report separately to the Commonwealth on an 'in confidence' basis.

This report is made in accordance with a resolution of directors.



I M McLachlan  
Chairman

Sydney  
16 September 2005

## Auditors' independence declaration

As lead auditor for the audit of Australian Wool Innovation Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.



Peter Buchholz  
Partner  
PricewaterhouseCoopers

Sydney  
16 September 2005

# Financial Report – 30 June 2005

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The financial report covers Australian Wool Innovation Limited as an individual entity. Australian Wool Innovation Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5  
16–20 Barrack Street  
SYDNEY NSW 2000

A description of the nature of the entity's operations and principal activities is included in the review of operations and activities in the directors' report on pages 56–59, which is not part of this financial report.

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# Statement of Financial Performance

For the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>Revenue from ordinary activities</b>	3	64,999	63,202
Research, development and innovation program expenditure	5	(65,721)	(44,334)
RDI support services expenditure	5		
• Employee expenses		(4,832)	(5,571)
• Legal and professional expenses	4	(2,856)	(1,652)
• Travel expenses		(738)	(593)
• Depreciation and amortisation expenses		(784)	(806)
• Other expenses from ordinary activities		(3,566)	(2,882)
Reversal of contract provision		–	1,452
<b>(Deficit) / Surplus from ordinary activities</b>	17	(13,498)	8,816
<b>Total changes in equity attributable to members of Australian Wool Innovation Limited other than those resulting from transactions with owners as owners</b>		(13,498)	8,816

*The above statement of financial performance should be read in conjunction with the accompanying notes.*

# Statement of Financial Position

For the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>Current assets</b>			
Cash assets	6	101,079	113,134
Receivables	7	4,232	5,634
Other	8	836	557
Total current assets		106,147	119,325
<b>Non current assets</b>			
Receivables	9	–	–
Property, plant and equipment	10	4,547	4,030
Livestock	11	584	–
Intangible assets	12	–	–
Total non-current assets		5,131	4,030
<b>Total assets</b>		111,278	123,355
<b>Current liabilities</b>			
Payables	13	7,585	6,205
Provisions	14	615	555
Total current liabilities		8,200	6,760
<b>Non-current liabilities</b>			
Provisions	15	86	105
Total non-current liabilities		86	105
<b>Total liabilities</b>		8,286	6,865
<b>Net assets</b>		102,992	116,490
<b>Equity</b>			
Contributed equity *	16	–	–
Retained surplus	17	102,992	116,490
<b>Total equity</b>		102,992	116,490

\* At 30 June 2004 and 2005 contributed equity was \$100.

*The above statement of financial position should be read in conjunction with the accompanying notes.*

# Statement of Cash Flows

For the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		63,344	60,232
Payments to suppliers and employees (inclusive of goods and services tax)		(82,079)	(68,187)
		(18,735)	(7,955)
Interest received		6,507	5,020
Other revenue		1,543	536
<b>Net cash inflow/(outflow) from operating activities</b>	25	(10,685)	(2,399)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,698)	(1,958)
Proceeds from sale of property, plant and equipment		328	26,123
<b>Net cash inflow/(outflow) from investing activities</b>		(1,370)	24,165
<b>Net increase/(decrease) in cash held</b>		(12,055)	21,766
Cash at the beginning of the financial year		113,134	91,368
<b>Cash at the end of the financial year</b>	6	101,079	113,134

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

# Notes to the Financial Statements

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# Notes to the Financial Statements

30 June 2005

## Note 1. Summary of significant accounting policies

This general-purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared under the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the financial statements for the year ending 30 June 2006. Information about how the transition to Australian equivalents to IFRS is being managed, and the key differences in accounting policies that are expected to arise, is set out in note 1E.

### A General

#### A (1) Income tax

Australian Wool Innovation Limited is exempt from income tax in Australia under Section 50–40 of the *Income Tax Assessment Act 1997*.

#### A (2) Foreign currency translation Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At reporting date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the surplus or deficit for the year.

### A (3) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### B Revenue and expenditure

#### B (1) Revenue recognition

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

Revenue for the disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services.

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

#### B (2) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

## Note 1. Summary of significant accounting policies (continued)

### B (3) Acquisition of assets

Purchases of property, plant and equipment are recognised at cost in the statement of financial position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition.

### C Assets

#### C (1) Cash

For the purpose of the statement of cash flows, cash includes deposits held at call with a bank, funds under management and investment securities. There were no standby credit facilities in place at 30 June 2005.

#### C (2) Receivables

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

#### C (3) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, the recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net surplus or deficit in the reporting period in which the recoverable amount write down occurs.

#### C (4) Intangible Assets

##### (i) Research, development and innovation

Costs incurred on research and development projects and in-process research and development acquired in the acquisition of an entity or operation are expensed as incurred.

##### (ii) Intellectual property

Costs associated with intellectual property, either developed or acquired by the company, are expensed as incurred, except to the extent that they are expected beyond a reasonable doubt to be recoverable.

In the event that the future economic benefit attributable to an individual research, development and innovation project or piece of intellectual property can be determined and it becomes probable such benefit will exceed the future cumulative expenditure relating to that item, all future costs relating to that item are deferred and amortised on a straight line basis over the period of their expected benefit.

#### C (5) Investments

Investments are stated at cost less amounts written off for permanent diminution in their value. Investment income is recognised in the statement of financial performance when receivable.

#### C (6) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or re-valued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the economic entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Category	Useful life	Depreciation basis
Buildings	40 years	straight line
Plant and equipment	2–6 years	straight line

#### C (7) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the entity, whichever is the shorter. Leasehold improvements held at reporting date are being amortised over 7 years.

**Note 1. Summary of significant accounting policies (continued)**

**D Liabilities**

**D (1) Trade and other creditors**

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**D (2) Employee entitlements**

*(i) Wages, salaries and annual leave*

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

**E International Financial Reporting Standards (IFRS)**

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the entity's financial statements for the year ending 30 June 2006.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS

to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The Chief Executive Officer and the General Manager – Finance have been appointed to manage the transition to Australian equivalents to IFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. They have reported to the finance and audit committee during the financial year ended 30 June 2005, and have the opinion that, following an analysis of most of the Australian equivalents to IFRS, there are no differences that are expected to have a significant impact on the financial statements. The following standards may have an impact on the accounting policies of the consolidated entity:

Impairment of assets – Under AASB 136 (the Australian equivalent to IAS 36) discounted cash flows will be required to calculate the recoverable amount of assets. Under the current accounting policy, discounted cash flows are not required.

Intangible assets – Under AASB 138 (the Australian equivalent to IAS 38) internally generated intangibles (eg patents, trademarks, etc.) can only be recognised in accordance with strict criteria. The consolidated entity does not currently recognise any intellectual property on its statement of financial position and therefore the changes to the recognition criteria for these assets are not expected to impact on the consolidated entity's current statement of financial position, but may have an impact going forward.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the entity's financial position and reported results.

## Note 2. Segment information

### Business Segments

Australian Wool Innovation Limited operates predominately in research, development and innovation in the wool industry.

### Geographical segments

Australian Wool Innovation Limited operates primarily in one geographic segment, that being Australia. During the financial year AWI opened offices in Shanghai, China and New York, USA which are responsible for growing domestic demand for Australian Merino

wool in key international markets through strategic engagements with manufacturing and retail brand partners. They do this by building business relationships which facilitate innovative wool based product development and its commercialisation into the consumer market. However, these offices do not enter into research, development and innovation contracts or conduct business in their own right and accordingly no geographic segment split is considered appropriate.

## Note 3. Revenue

	2005	2004
	\$'000	\$'000
<b>Revenue from operating activities</b>		
Government Contributions	13,513	14,124
Sale of goods and services	350	255
Royalties	569	355
Wool levy	42,835	42,739
Other	1,207	100
	58,474	57,573
<b>Revenue from outside the operating activities</b>		
Interest	6,525	5,629
Revenue from ordinary activities	64,999	63,202

## Note 4. Surplus from ordinary activities

Surplus/deficit from ordinary activities includes the following specific net gains and expenses:

	2005	2004
	\$'000	\$'000
<b>Expenses</b>		
Depreciation		
Buildings	70	171
Plant and equipment	714	635
Total depreciation	784	806
Other Provisions		
Employee entitlements	41	78
Rental expense relating to operating leases	614	640



**Note 5. Research, development and innovation expenditure (continued)**

	<b>2005</b>			<b>2004</b>		
	\$'000			\$'000		
	RDI Program	RDI Support	Total cost	RDI Program	RDI Support	Total cost
Employee expenses	3,674	4,832	8,506	3,493	5,571	9,064
Legal and professional expenses <sup>^</sup>	104	2,856	2,960	143	1,652	1,795
Travel expenses	936	738	1,674	1,040	593	1,633
Depreciation and amortisation expenses		784	784		806	806
Other expenses from ordinary activities	1,148	3,566	4,714	1,564	2,882	4,446
	5,862			6,240		

<sup>^</sup> Legal and professional expenses include \$1.4m (2004: \$Nil) settlement of a claim against AWI relating to a 2002 contract, including costs and interest.

The comparative figures for the year to 30 June 2004 have been restated from those shown in last year's Financial Statements. This change has been made to reflect the Strategic Plan which introduced new programs, as shown in the preceding table, and the matching of certain overheads to programs.

## Notes to the Financial Statements (continued)

30 June 2005

### Note 6. Current assets – Cash assets

	<b>2005</b>	<b>2004</b>
	\$'000	\$'000
Cash on hand and at bank	256	424
Funds under management	100,823	112,710
	<b>101,079</b>	<b>113,134</b>
Representing:		
Unrestricted cash and cash investments	65,337	78,745
Restricted as security against guarantees issued by the company's bankers <sup>(a)</sup>	326	249
Restricted by the directors in respect of:		
• Capital reserve <sup>(b)</sup>	20,606	19,900
• Emergency reserve <sup>(c)</sup>	5,000	5,000
• Operating reserve <sup>(c)</sup>	9,810	9,240
	<b>101,079</b>	<b>113,134</b>

(a) Bank guarantees have been issued to a number of parties in respect of the company's liabilities. The company has given its primary bankers security over term deposits in respect of those amounts, such deposits attracting commercial interest rates.

(b) The directors resolved in July 2003 to set aside \$24,606,000 of the funds received from the sale of the company's interest in CSIRO properties as a capital sum for special purposes. Subsequently \$4,000,000 was released as payment to the Australian Wool Education Trust.

(c) The directors resolved in May 2003 to set aside \$5,000,000 as an emergency reserve to cover any unforeseeable expenditure and 15% of annual budgeted revenue as an operating reserve in respect of future liabilities.

#### Note 7. Current assets – Receivables

	<b>2005</b>	<b>2004</b>
	\$'000	\$'000
Trade debtors	269	1,028
Provision for doubtful debts	–	–
	269	1,028
Accrued wool levy	3,498	4,161
Other debtors	465	445
	4,232	5,634

#### Note 8. Current assets – Other

	<b>2005</b>	<b>2004</b>
	\$'000	\$'000
Goods and services tax receivable	701	301
Prepayments	135	256
	836	557

#### Note 9. Non-current assets – Receivables

	<b>2005</b>	<b>2004</b>
	\$'000	\$'000
Loan to textile manufacturer	1,141	1,141
Provision for doubtful debts	(1,141)	(1,141)
	–	–

During the year ended 30 June 2003, a loan was made to a textile manufacturer to develop and commercialise wool textile products. The loan is for a term of ten years at a commercial interest rate, which is paid quarterly. Subject to certain market developments, the amount of loan repayable may be reduced to 50% of the principal. Due to the uncertainty regarding this, combined with the long timeframe before the loan is repayable, the directors have recognised a provision against the loan in full for accounting purposes. The directors will reconsider the requirement for this provision on an annual basis.

## Notes to the Financial Statements (continued)

30 June 2005

### Note 10. Non current – Property, plant & equipment

	<b>2005</b>	<b>2004</b>
	\$'000	\$'000
<b>Land and buildings</b>		
Freehold land – at cost	425	425
Buildings		
At cost	2,550	1,906
Less: Accumulated depreciation	(205)	(138)
	2,345	1,768
Total land and buildings	2,770	2,193
<b>Plant and equipment</b>		
Plant & equipment		
At cost	3,250	3,155
Less: Accumulated depreciation	(1,473)	(1,318)
Total plant and equipment	1,777	1,837
	4,547	4,030

#### Reconciliations

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year is set out below:

	<b>Land and Buildings</b>	<b>Plant and equipment</b>	<b>Total</b>
	\$'000	\$'000	\$'000
Carrying amount at 1 July 2004	2,193	1,837	4,030
Additions	747	951	1,698
Disposals	(100)	(297)	(397)
Depreciation/amortisation expense	(70)	(714)	(784)
Carrying amount at 30 June 2005	2,770	1,777	4,547

#### Note 11. Livestock

	2005	2004
Number of livestock	11,721	2,918
	\$'000	\$'000
Value	584	–

Livestock are carried on the balance sheet at cost, with adjustment made to reflect net market value as appropriate. Livestock acquired prior to 1 July 2004 had been expensed to the Statement of Financial Performance as this was prior to major redevelopment of the operations at the farm in preparation for introducing research activities; these livestock have been excluded from the statement of financial position as it was not the company's intention to show a profit by recognising previously expensed items.

#### Note 12. Non-current assets – Intangible assets

	2005	2004
	\$'000	\$'000
Patents and trademarks	–	–

The Company owns or has an interest in a number of items of registered intellectual property, as shown in Appendix B of this Annual Report. The company's current policy is to expense all intellectual property costs as incurred unless Generally Accepted Accounting Practice requires treatment otherwise. At the date of this report, no costs relating to these intangible assets have been deferred; all costs have been expensed as incurred.

#### Note 13. Current liabilities – Payables

	2005	2004
<b>Unsecured</b>	\$'000	\$'000
Trade creditors	631	1,170
Other payables – RDI contract payments accrued	4,722	3,483
Other creditors	2,232	1,552
	7,585	6,205

#### Note 14. Current liabilities – Provisions

	2005	2004
	\$'000	\$'000
Annual leave	597	439
Other employee entitlements	18	116
	615	555

#### Note 15. Non-current liabilities – Provisions

	2005	2004
	\$'000	\$'000
Long service leave	86	105
	86	105

## Notes to the Financial Statements (continued)

30 June 2005

### Note 16. Contributed equity

	<b>2005</b>	<b>2004</b>
	Shares	Shares
<b>(a) Share capital</b>		
Ordinary shares – fully paid	37,462	37,462

#### (b) Ordinary shares

The \$100 represents the initial capital contribution on the establishment of the company. Each wool grower has a right to one vote for every \$100 of wool levy or wool tax contributed during the 3 previous financial years, as defined in the *Wool Services Privatisation Act 2000 (Cth)*. These shares do not entitle wool growers to participate in any profit distributions or in any proceeds on the winding up of the entity.

#### (c) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$
1 July 2003	Balance	36,654		100
22 August 2003	Share issue	55	Nil	Nil
27 August 2003	Share issue	95	Nil	Nil
4 September 2003	Share issue	354	Nil	Nil
12 September 2003	Share issue	150	Nil	Nil
1 October 2003	Share issue	116	Nil	Nil
16 October 2003	Share issue	36	Nil	Nil
21 October 2003	Share issue	2	Nil	Nil
30 June 2004	Balance	37,462		100
30 June 2005	Balance	37,462		100

The actual number of shareholders at 30 June 2005 was 32,978.

### Note 17. Retained surplus

	<b>2005</b>	<b>2004</b>
	\$'000	\$'000
Retained surplus at the beginning of the financial year	116,490	107,674
Net surplus/(deficit) attributable to shareholders of Australian Wool Innovation Limited	(13,498)	8,816
Retained surplus at the end of the financial year	102,992	116,490

## Note 18. Financial instruments

### (a) Credit risk exposures

The entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.

The entity has no significant exposures to any concentrations of credit risk.

According to Australian Wool Innovation Limited's Treasury Policy, counterparties for Financial Instruments must have a minimum credit rating A (long term) and A1 (short term) as rated by S&P's Australian Standards.

The company manages all risks by only approving expenditure in Australian dollars with a fixed exchange rate set at the rate prevailing at 4pm the day before any contract is signed.

### (b) Interest rate risk exposures

The entity's exposure to interest rate risk and effective weighted average interest rate by maturity periods is set out in the following table:

2005	Notes	Weighted average interest rate	Floating interest rate	Non interest bearing	Total
		%	\$'000	\$'000	\$'000
<b>Financial assets</b>					
Cash and deposits	6	5.00	252	4	256
Funds under management	6	5.78	100,823	–	100,823
Receivables	7		–	4,232	4,232
Receivables (non-current)	9	6.79	–	–	–
			101,075	4,236	105,311
<b>Financial liabilities</b>					
Trade and other creditors	13		–	(7,585)	(7,585)
Net financial assets / (liabilities)			101,075	(3,349)	97,726
<b>2004</b>					
<b>Financial assets</b>					
Cash and deposits	6	4.75	420	4	424
Funds under management	6	5.57	112,710	–	112,710
Receivables	7		–	5,634	5,634
Receivables (non-current)	9	6.50	–	–	–
			113,130	5,638	118,768
<b>Financial liabilities</b>					
Trade and other creditors	13		–	(6,205)	(6,205)
Net financial assets / (liabilities)			113,130	(567)	112,563

### (c) Net fair value of financial assets and liabilities

#### On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the economic entity approximates their carrying amounts.

## Notes to the Financial Statements (continued)

30 June 2005

### Note 19. Remuneration of auditors

	<b>2005</b>	<b>2004</b>
	\$	\$
During the year the auditor of the entity and its related practices earned the following remuneration:		
Audit of financial reports of the entity	75,000	75,000
Other audit-related work	–	6,902
Other assurance services	17,500	98,000
Total audit and other assurance services	92,500	179,902
Taxation	11,902	25,560
Total remuneration	104,402	205,462

As part of the review of Corporate Governance practices, the entity segregated its taxation, internal audit and advisory services from statutory audit within Australia. Since 11 June 2003 it has been the entity's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties only where PricewaterhouseCoopers' expertise and experience with the entity are important.

### Note 20. Commitments for expenditure

	<b>2005</b>	<b>2004</b>
	\$'000	\$'000
<b>Other commitments</b>		
Commitments in relation to research and development, technical proving and transfer and, the cost of various goods and services contracted for at the end of the reporting date but not recognised as liabilities, payable:		
Within one year	38,739	32,076
Later than one year but not later than 5 years	27,271	25,488
	66,010	57,564
<b>Lease commitments</b>		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	733	437
Later than one year but not later than 5 years	877	885
	1,610	1,322
Representing:		
Non-cancellable operating leases	1,610	1,322

## Note 21. Employee benefits

	2005	2004
	\$'000	\$'000
<b>Employee benefit and related on-costs liabilities</b>		
Provision for employee benefits – current (Note 13)	615	555
Provision for employee benefits – non-current (Note 14)	86	105
<b>Aggregate employee benefit and related on-costs liabilities</b>	701	660
<b>Employee numbers</b>	Number	Number
Number of employees at 30 June	73	59
Number of permanent full time contractors at 30 June	1	2
	74	61

## Note 22. Related parties

### Directors

The names of persons who were directors of Australian Wool Innovation Limited at any time during the financial year are as follows:

The Hon I M McLachlan AO  
Mr B P van Rooyen  
Dr C J Abell  
Dr K J Bell  
Mr J D O Boyd  
Mr W B Merriman  
Mr H P Nivison  
Mr P S Sykes

Except for Mr W B Merriman who was appointed on 19 November 2004, all of these persons were also directors during the year ended 30 June 2004.

### Remuneration

Information on remuneration of directors is disclosed in the Directors' Report.

### Directors' interests in contracts

During the year ended 30 June 2005 no director, or director related entity entered into a contract or had any transactions on other than normal terms and conditions with Australian Wool Innovation Limited.

### Other transactions with directors and director related parties

There were no other transactions with directors or director related parties during the year ended 30 June 2005.

## Notes to the Financial Statements (continued)

30 June 2005

### Note 23. Economic dependency

Australian Wool Innovation Limited is dependent upon receipt of Wool Levy through the Commonwealth Government who collect the levy and provide the funds in accordance with the Statutory Funding Agreement.

### Note 24. Events occurring after reporting date

There were no material financial events that occurred after reporting date that have not been included in the financial report.

### Note 25. Reconciliation of surplus from ordinary activities to net cash inflow from operating activities

	<b>2005</b>	<b>2004</b>
	\$'000	\$'000
(Deficit)/Surplus from ordinary activities	(13,498)	8,816
Depreciation and amortisation	784	806
(Profit)/Loss on sale of property, plant and equipment	67	(121)
Change in operating assets and liabilities		
Decrease (increase) in trade debtors	759	(846)
Decrease (increase) in prepayments	121	(227)
Decrease (increase) in other operating assets	(984)	4
Decrease (increase) in accrued wool levy	664	(1,923)
Decrease (increase) in other debtors	(19)	(445)
Increase (decrease) in creditors	1,380	(7,089)
Increase (decrease) in provisions	41	(1,374)
Net cash inflow/(outflow) from operating activities	(10,685)	(2,399)

# Directors' declaration

30 June 2005

The directors declare that the financial statements and notes set out on pages 67 to 80:

- (a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of its operations and of their cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and
- (b) 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 directors.



I M McLachlan  
Chairman

Sydney  
16 September 2005

## Independent audit report to the members of Australian Wool Innovation Limited

### Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Australian Wool Innovation Limited (the Company) for the financial year ended 30 June 2005 included on the Australian Wool Innovation Limited web site.

The Company's directors are responsible for the integrity of the Australian Wool Innovation Limited web site.

We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

### Audit opinion

In our opinion, the financial report of Australian Wool Innovation Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Australian Wool Innovation Limited as at 30 June 2005, and of its performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

### Scope

#### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Australian Wool Innovation Limited (the company), for the year ended 30 June 2005.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

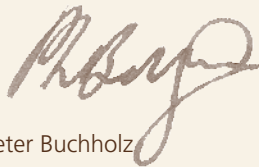
While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

#### **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers



Peter Buchholz  
Partner

Sydney  
16 September 2005

