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Cover - What's an exclamation mark got to do with wool?

It's about innovation. That's our mission. And that's the reaction people have to the best innovative ideas! Each AWI project is looked at from every angle to ensure it benefits the Australian wool producer and, ultimately, the Australian wool industry.

The AWI Charter

*Owned by
and working for
Australian wool
producers*

- Providing funds for Research, Development and Innovation (RDI)
- Facilitating the dissemination, adoption and commercialisation of the results of RDI
- Managing, developing and exploiting intellectual property arising from RDI activities
- Providing wool industry services not otherwise widely commercially available to Australian wool producers

Chairman's message

Last year was very much the foundation year for Australian Wool Innovation. While we operated under our parent company, Australian Wool Services, our goal was to lay down a commercial approach; an approach that would bear scrutiny and ensure the best possible return for our investors: Australian wool producers.

Since demerger on 1 May 2002, we have strived to build on this by creating a research, development and innovation company that operates efficiently and effectively. One in which our shareholders can feel a real sense of ownership.

While AWI is clearly focused on working for Australian wool producers, we also recognise the importance of our partnerships, both at government and research level. We are very pleased to have the formal support of the Australian Federal Government, both through the statutory funding mechanism and through the exercise of joint research, development and innovation, in key areas identified by government as priorities that benefit the broader community.



The strategic direction for the coming five years has been further refined following an extensive industry-wide consultation process. The strategic plan provides real direction, real challenges and a real way of moving wool industry research, development and innovation forward.

There is no doubt that it has been an exciting year. Important fundamental decisions concerning corporate governance, management and administration have been laid down by the Board to ensure the continued development of AWI. The strategic direction for the coming five years has been further refined following an extensive industry-wide consultation process. The strategic plan provides real direction, real challenges and a real way of moving wool industry research, development and innovation forward.

AWI recognises our shareholders as our number one priority. This recognition is reflected at Board and management level by the willing commitment to meet with and establish two-way communication with shareholders. AWI has also worked hard to ensure levy payers understand where investments are made and the manner in which decisions are taken. Importantly the Board has approved a program over the next twelve months to ensure the publication of transparent accountability and performance measures, against which the owners of our business may judge us.

Before January 2004, our shareholders must vote on the quantum of the levy for the ensuing three years. To assist this vote, you will be provided with comprehensive information on our performance following an independent review by AWI's external auditor, PricewaterhouseCoopers.

In our first report to shareholders last year, we stressed the fact that we would take a commercial, robust, businesslike approach to all aspects of our operation. There is no doubt that this is a change from that adopted by previous structures and, for some, this has taken some adjustment. However we are confident that this is the right approach and I believe the results achieved to date are testament to the fact we are heading in the right direction.

Some of these results include:

- The resolution of a forty-year-old property dispute that will deliver an estimated \$27 million in cash and assets to AWI;
- The establishment of a detailed five year strategic plan that has received widespread industry and shareholder acclaim;
- Extensive shareholder and industry consultations, the likes of which have never been seen before in the wool industry;
- The ongoing commercial development of the ShearExpress system;
- The funding of a range of fundamental science projects to underpin future developments;
- The successful commercialisation of research and development projects;
- Development of a major initiative to address the serious issues of shearers and wool handler training;
- Development of a commercially focused and industry relevant on-farm fibre measurement strategy;
- Serious financial commitments to the funding of long term graduate, post-graduate and doctoral studies to reverse the serious decline in wool scientific and technical skills for the future industry;
- The clawing back of shareholder ownership of very valuable intellectual property and the implementation of proper management of those assets.

Over the past twelve months there have been a number of changes within the make-up of the Board, the first being the "swap" of Australian Wool Services' director, Mr Don Nelson, with that of AWI director, Mr John Patten. In mid-June, one of the inaugural AWI directors, Associate Professor Andrew Vizard resigned from the Board. This position was subsequently filled by Professor Alan Trounson, a genetic research and development specialist with direct wool production and wool science qualifications. In late July the Board was expanded to include Mr Peter Sykes – a wool industry representative with wide-ranging knowledge of the operation of the wool pipeline.

All shareholders will soon have an opportunity to vote on the full makeup of the Board for the coming twelve months. The decision to spill all non-executive positions on the Board was not taken lightly, but is intended to seek endorsement for the direction we have undertaken to date.

I believe we have a strong blend of commercial, wool-related experience on our Board and appreciate its support and enthusiasm for the task ahead.

I look forward to working with wool producers to continue to drive the growth of real returns from profitable research, development and innovation activities.



Maree McCaskill AWI Chairman

Managing Director's Report

Welcome to Australian Wool Innovation Limited. This report marks a significant milestone in the birth of the new structure, covering both the first full financial year of the company's operations and the start of a truly independent AWI.

Under the restructuring process, AWI was formally demerged from its parent entity, Australian Wool Services Limited on 1 May 2002 – some twelve months ahead of schedule. This outcome reflects favourably upon AWS Ltd which has given the AWI Board excellent assistance and leadership in our first twelve months. I particularly acknowledge its Chair, Mr Rodney Price for his unstinting support.

In our first year there is no doubt that our harder edged, commercial approach set us apart from earlier research and development structures. And we make no apology for the approach. As the person responsible for implementing the directions of the Board, my intention is to ensure the development of a new culture – a culture that embraces and welcomes innovation, and sees AWI as an avenue to provide outcomes that make a real difference.

While AWI recognises that the Australian wool production sector of the industry is perceived by some as conservative, our role is to engage in cutting edge scientific research, development and innovation, delivering measurable results in sustainability, productivity, lower costs and increased profitability for our shareholders. This means pushing the frontiers of science, while at the same time providing a sharp commercial focus.

As at 30 June 2002, AWI had committed over \$26 million across a range of programs and projects, which were identified in our first strategic plan and statement of corporate intent, published in 2001.

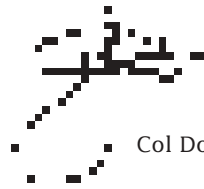
Over the coming financial year, AWI will undertake a major program to further establish high quality relationships with global research providers and the international wool industry. Action has been taken to recruit personnel with acknowledged track records in this area, who are able to engage in effective dialogue with people at the highest levels of industry.



Our focus is to be both commercial and innovative. Our goal is to deliver results quickly and efficiently and I believe we have set the right management framework to give ourselves the best possible opportunity to do just that. In our strategic planning forums held earlier this year our theme was Rhetoric to Reality – and by 2004, I would expect AWI to be in a position to deliver major RDI benefits across the industry – a time frame that in research terms represents a substantial fast tracking of key RDI programs.

AWI has also been most fortunate in having a team of committed shareholders operating under the Chairmanship of Mr David Webster and known as the Wool Advisory Group (WAG). During the year the WAG merged with the former independent group known as Women in Wool. The WAG's fierce independence and honest appraisals of AWI plans have been both stimulating and beneficial to the company as we seek to develop our activities in a manner that delivers real results.

We are not perfect and we will make mistakes. We will not always please everyone. But what we will continue to do is manage this business for those who own it – Australian wool producers. We will seek out the best science, research, innovation and technology and do everything in our power to ensure that we deliver real results to our shareholders and the Australian community.



Col Dorber **Managing Director**

AWI business reporting

AS A YOUNG, COMMERCIALY FOCUSED COMPANY, AWI HAS SPENT CONSIDERABLE EFFORT IN BUILDING A RANGE OF MEANINGFUL REPORTING MECHANISMS. IN ITS FIRST FULL YEAR OF OPERATIONS THE COMPANY LARGELY OPERATED UNDER THE DIRECTION OF AN INITIAL INTERIM PUBLISHED STRATEGIC PLAN. WHILE THIS PLAN SET A SPECIFIC STRATEGIC DIRECTION FOR THE COMPANY, THE LONGER TERM APPROACH HAS NOW BEEN MORE CLEARLY DEFINED IN THE STRATEGIC PLAN 2002-07.

The new Strategic Plan was developed from a realistic situation analysis of global market and operational circumstances affecting the Australian wool industry and producers. Married into this analysis was a process of widespread industry consultation that included a comprehensive survey of industry priorities and a series of planning forums held over a two-day period. The Plan clearly states five priority areas that will now be addressed through well-focused research, development, innovation and services activities. These areas are:

- 1 **Inventiveness**
- 2 **Market Presence**
- 3 **Industry Competitiveness**
- 4 **Wool Sheep as Good Business**
- 5 **Understanding and Adoption**

The release to all shareholders in late June 2002 of the Strategic Plan and the Operating Plan will enable the company to report in future against a clear set of milestones and performance indicators.

This 2001-02 Annual Report records the company performance against the initial plan and the ways in which it intends to commence operations under the new strategic direction.

Scope of operations

The scope of operations undertaken by AWI is clearly defined by the company charter. While the most significant role is to provide funds and management for research, development and innovation, the commercialisation of results and their dissemination and adoption provides the ability to deliver real returns to shareholders.

In the coming year increased emphasis will be given to this aspect of operations with the area of Understanding and Adoption now included in the Strategic Plan as one of five key investment priorities.

While increased adoption of research, development and innovation by producers is one way of clearly showing a return on investment, another is through the effective management of intellectual property – such as patents, trademarks, plant varieties – arising from these activities. A further explanation of the approach to intellectual property can be found on Page 36. AWI is also responsible for providing wool industry services that are not widely commercially available to Australian wool producers.

In addition, the Statutory Funding Agreement and AWI Constitution set out other responsibilities to be met by the company. These include:

- AWI must conduct a poll of wool producers every three years on the rate of the wool levy. The next vote will need to take place by 1 January 2004.
- AWI must not provide grants or otherwise financially assist an industry body representing wool producers. AWI may however obtain services in a transparent and competitive manner from such bodies.
- AWI cannot pay dividends to present or future shareholders. All profits made by AWI must be used to further its activities. AWI is exempt from income taxes.



The Strategic Plan clearly states five priorities that will be addressed through well-focused research, development, innovation and services.

The AWI approach

The decisions made today are in many cases long term decisions – with little or no immediate visible return. Each and every decision is taken within a considered, commercial framework that provides the greatest potential for the project to succeed.

AWI is not about re-inventing the wheel so much as speeding up the rate at which the wheel turns, identifying the various aspects of the industry and creating a unique opportunity for wool producers to increase productivity, profitability and sustainability.

Since its inception, AWI has welcomed debate and with increasing collective input from wool producers, the company is moving ahead quickly with the development of an innovative research and development program.

In just 18 months a range of exciting projects are underway – with some real breakthroughs in new on-farm products, fibres and fabrics, valuable intellectual property and the development of information packs such as the Global Wool Pipeline Study. Critical decisions such as the termination of the long-running Wrinkle Resistant Easy Care and Ram Power programs also demonstrate AWI's practical capacity to lop off the dead wood that drains funding and holds back essential progress.

Investment priorities

WHILE THE PRIORITIES OUTLINED IN THE 2002-07 STRATEGIC PLAN PRESENT A DIFFERENT FOCUS TO THOSE WITHIN THE ORIGINAL PLAN, THIS REPORT WILL LINK THE OVERALL PROGRESS MADE WITHIN THE INVESTMENT PORTFOLIO TO THE PRIORITIES NOW ADOPTED BY THE COMPANY.

PRIORITY A Inventiveness – build, harness, reward and apply

The commercial, business focus adopted by AWI since its inception has set a clear framework for the construction of its research, development and innovation portfolio. As part of this building process, the company has actively pursued the best available providers – wherever in the world they are – and looked at ways of harnessing new approaches, new technology and new ideas to address issues of concern.

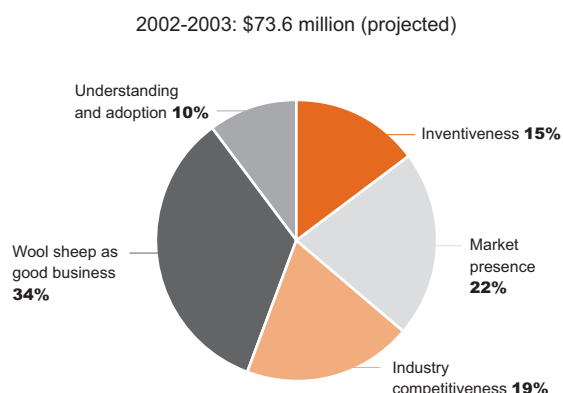
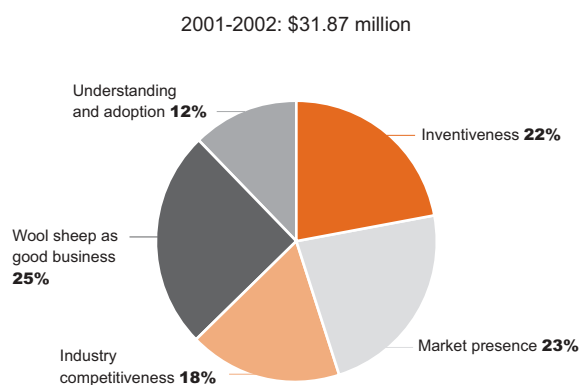
A clear example of an innovative RDI approach is the development of the ShearExpress mobile wool-harvesting concept, which offers an exciting new solution to the age old methods of fleece removal.

The promise of developing an effective hand-held testing device for on-farm fibre measurement has been actively pursued in the past year. Not content with searching for ways to solve this problem through improvements to existing technologies, AWI undertook a worldwide examination of other technologies that could be adapted for this purpose. Over the next twelve months AWI will seek to achieve a real return to producers by harnessing the initiative and inventiveness it has uncovered in this search process.

The opportunity has also been taken to encourage young people who are critical to the future development of the industry. A range of PhD and postdoctoral scholarships have been underwritten both here in Australia and at academic institutions in New Zealand, USA and the UK.

The diverse areas covered through the funding programs have ranged from proteomics, fibre and fabric engineering and new market opportunities in medicine, novel fabrics, footwear and defence. However the one overriding intention has been to equip young graduates with the scientific and technical skills required to reinvigorate all aspects of wool science.

SPEND BY PRIORITY AREA



Every opportunity is taken to encourage the young people who are critical to the future development of the industry.

SHEAREXPRESS

ShearExpress is one of AWI's major commercialisation projects. It is a potentially revolutionary innovation aimed at offering an alternative to traditional shearing that is responsive to seasonal variables, eliminates the need for on-farm shearing infrastructure and addresses the problems associated with shearer shortages. AWI will fund development of ShearExpress to the point where it is in the marketplace and working effectively.

Once a viable working system has been delivered to producers, AWI would consider selling its share, providing this is in the interests of wool producers.

AWI is currently developing a working prototype which is expected to be available for commercial proving by mid 2003. This prototype will be put through practical testing and further machines will be made available as the system demonstrates its worth.

In accordance with AWI's policy of real results, proof of productivity will be required and the building of trucks will be dependent on demand. Committed AWI investment is \$6.9 million over 2002 to 2004. In addition to direct producer benefits, AWI expects to generate significant financial returns on its initial investment.



mobile wool harvesting systems

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Just what do producers want?

To act successfully on behalf of wool producers AWI needs to make sure program activities mirror the priorities of levy payers. But what are the priorities for wool producers?

To answer this question, AWI commissioned an extensive series of personal interviews and group discussions with wool levy payers across Australia to identify possible initiatives that would deliver economic benefits. In order to validate this 'wish list' before it was fed into the strategic planning process a large scale market research project was undertaken.

In February 2002 over 2,200 wool levy payers took part in an interview process to determine priority areas. Presented with 53 potential initiatives, the top ten priorities attracted support from almost half of those surveyed.

The top ten investment areas in which producers see a great deal of economic benefit are:

- 1** Research ways of changing the image of wool to increase its market potential;
- 2** Fund R&D into blowfly strike;
- 3** Fund R&D of new innovative products (including blends) to meet the needs of end consumers;
- 4** Fund R&D into a hand-held measuring device for use in-shed;
- 5** Fund R&D into early detection and control of internal and external parasites;
- 6** Develop approaches to improving the professional skills of wool handlers, shearers and shed hands;
- 7** Introduce a trace-back system that would allow any bale of wool to be traced back to the producers and stock where it originated;
- 8** Develop an appropriate technology for on-farm fibre measurement that enables producers to test the wool clip and produce a report acceptable to the buyer;
- 9** Promote increased demand for wool through linked R&D projects with commercial partners; and
- 10** Educate wool producers on the importance of clip preparation and wool classing.

The top priority – that of improving the image of wool – is now being reviewed and recommendations are being prepared for shareholder consideration consistent with the AWI charter. It was pleasing to see that AWI activities were either underway or planned for the majority of these priorities.

With these priorities feeding in to the development of the 2002-07 Strategic Plan, further work will be undertaken in 2002-03 to ensure these areas deliver the 'great deal of economic benefit' identified by those producers surveyed.



AWI activities are designed to mirror the priorities of levy payers.

Priority B Market presence – new wool uses, products and access

In a world where standing still can take a product backwards, there is little doubting the real value of research development and innovation to improve the market presence of wool.

New uses for wool and the development of innovative fabrics, fibres and products have been an exciting component of the investment portfolio from the start of the company. Within the first year, concepts that in the past would have been considered impossible – such as non-woven wool, or a washable wool suit – have become distinct market realities.

The development and commercialisation of non-woven fabrics is a good example of the successful combination of research and development ideas with commercial outcomes. The partnership between AWI and Macquarie Textiles provides a strong link between the initial outcomes of research into non-woven fabrics – developed through the Wool Research Organisation of New Zealand (WRONZ) – and commercial partners interested in the further development of non-woven wool products.

This commercial focus to new fabric development is also clearly demonstrated in the relationship with WRONZ. As part of the partnership, WRONZ has agreed to deliver four new fabric concepts per year, with the requirement that at least one of these will be launched commercially each year. Non-wovens is the first fabric to be launched under this agreement.

Other wool products currently under development through this partnership include a new wool blend fill material for use in products such as sleeping bags and parkas, the development of a wool stretch pile fabric targeted at the apparel, upholstery and bedding market and a fabric for use in pure wool business shirts and blouses.

In 2001-02 a number of CSIRO research and development projects were commissioned as part of a commitment to develop a range of modern textiles and fibres.

WOOLLEN NON-WOVENS – ANOTHER FIRST FOR AWI

In a pioneering joint venture with Macquarie Textiles, Australia's largest wool textile processor, we are establishing a world-first plant for producing woollen non-wovens. This technology is the fastest growing global textile sector. Produced until now in synthetic or cotton, without the need for spinning or weaving, non-woven fabrics represent huge cost-savings (up to 40 per cent cheaper than traditional methods) to the textile and garment industries. For the wool industry, it offers unlimited potential. AWI's woollen non-woven textile project commenced in September 2001 and has already produced four non-woven fabrics to sample stage – a wool pile lining for jackets, a wool fleece fabric with breathable liner, a stretchy, windproof fabric and a wool/cotton blend for surfwear. The windproof non-woven sample is already receiving commercial orders.

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The ultimate goal is to increase the consumer demand for wool and, in turn, the profitability of Australian wool producers.

These projects include work in the areas of:

- eco-friendly shrink resistance processes, softness and dyeing capability;
- development of 30 new double layer knitted fabrics; and
- a large-scale chemical project to permanently enhance the whiteness of wool products.

From an AWI perspective these projects have the potential to affect a number of important areas related to textile production and manufacturing across all micron types. The ultimate goal is to increase the consumer demand for wool and, in turn, increase the profitability of Australian wool producers.

The commercial approach also means that when projects are not meeting strict performance indicators – such as in the case of the Wrinkle Resistant Easy Care Woven Apparel project – they are closed. AWI takes the view that while not all projects will achieve the required results, it is important to make consistent performance-based decisions as part of an effective project management process.

AWI has also undertaken a range of activities in the areas of trade policy and market access. The essential focus of the underlying work in this area has been to identify and, where possible, quantify the costs of trade barriers to Australian wool and wool products. Key trade areas covered include tariff, quota and non-tariff measures in major and emerging markets and trade facilitation issues.

TRADE POLICY

While trade policy may not be seen as a traditional research, development and innovation project, there is little doubt that it is an area with the potential to make a significant return to Australian wool producers. With this in mind AWI has invested in a wide range of trade policy and market access activities.

The focus has been on multilateral/WTO trade issues and the investigation and benchmarking of trade and access in key customer and consumer markets. To ensure these activities are understood and supported by shareholders and stakeholders, a structured range of communications activities have also been undertaken.

The achievements of the program during 2001-02 include:

- The establishment of strong relations with, and support from, Australian Government, parliamentarians, officials and industry bodies to pursue wool trade issues;
- A submission to the Australian Government on key issues for wool to be tackled through the World Trade Organisation's Doha Round of multilateral trade negotiations;
- The commissioning of research into the implications for Australian wool producers of a Free Trade Area of the Americas; the cost of EU quotas and tariffs to the Australian wool industry; a review of trade relations with Japan and an investigation of the prospects for expansion of wool processing and manufacturing in Australia; and
- The establishment of AWI trade policy web pages as a prime means of communication with shareholders.

In 2002 the Trade Policy Program was further strengthened and diversified with the recruitment of trading and broking/exporting/processing experience and senior management experience to oversee the expanded program. While AWI will continue to work on a range of issues relating to the development of a stronger trade relationship with China, a visible sign of the commitment to the region will be taken with the establishment of an office in Beijing late in 2002.



Because trade policy has the potential to make significant returns to wool producers, AWI has invested in a range of trade policy and market access activities.

PRIORITY C

Industry competitiveness – pipeline costs and consistency

To progress in business takes understanding – understanding input and production costs as well as knowing where value is added throughout the supply, manufacture and retail pipelines. AWI is no different and to progress as a facilitator of innovation it has actively pursued detailed information from throughout the wool pipeline.

In preparing its new Strategic Plan, AWI conducted a detailed situation analysis from available sources of information including the Woolmark 2005 global survey and industry feedback. The blunt message from this analysis was that the Australian wool industry must engineer a more economic product. This can be done by addressing costs and value at every point of the supply chain to counter competition from other fibres (and from products and services competing for consumer dollars) and to meet retailer and purchaser demands.

Over the past twelve months a number of activities have begun in this area. As a first step a Global Wool Pipeline Study was initiated to describe the pipeline as it currently exists. While the study represents a sizeable undertaking, the intention is that the information can be used to refine our research, development and innovation activities to take advantage of identified opportunities within the pipeline. The study should be completed during the second half of 2002.

While the Global Wool Pipeline Study will provide wide-ranging information on wool industry operations, other market intelligence information has also been made available to wool producers on an ongoing basis. Working in partnership with the Woolmark Company a range of products and information tools have been provided including:

- The Monthly Market Briefing;
- The Annual Review and Outlook for Fine Wool 2001-02;
- The Annual Review and Outlook for Mid-Micron Wool 2001; and
- A series of business briefings for wool producers in NSW, Victoria and Tasmania.

To improve the way in which market intelligence is provided AWI is currently reviewing its approach to the Monthly Market Briefing. In the longer term the intention is to improve the service assisting shareholders to make informed decisions on aspects affecting their business operations – such as sheep numbers and wool production (including type and quality) over the short, medium and longer term.

The national AWI Wool Production Forecasting Committee met for the first time in April. It comprises wool producers, wool brokers, processors, private treaty merchants, AWEX, AWTA, ABARE, ABS and the Woolmark Company. The committee's aim is to provide the best possible estimates of future sheep numbers for wool production, taking into account a range of issues including seasonal conditions, slaughterings, live sheep exports, wool test results and wool producer surveys.

GLOBAL WOOL PIPELINE STUDY

Commissioned in 2001, the Global Wool Pipeline Study has been successfully completed and the results are being compiled into an appropriate format. The results accurately quantify where value is gained and where cost is incurred along the pipeline. This information will assist research to improve value and reduce costs for Australian wool producers.

The framework includes reference to the relative prices, costs and values of competing fibres and the key drivers of consumer demand at intermediate and final stages in the wool textile pipeline.

To ensure wool producers are able to easily investigate and use the information gained through the study, a text-based model of the global wool pipeline is now being developed for print, web and compact disc formats. AWI shareholders will be advised on how to access the information when the project is finalised in the second half of 2002.



It is AWI's intention to assist shareholders to make informed decisions on aspects affecting their business operations.



AWI is examining ways of converting traditional synthetic and cotton spinning systems to wool and wool blend use.

MURATA SPINNING SYSTEMS

The creation of lighter, cheaper woollen yarns and textiles is essential for the wool industry to:

- penetrate further into the increasingly competitive world textile market;
- create new applications for wool in underdeveloped textile areas such as interior textiles; and
- present attractive opportunities for existing clients.

To achieve this, AWI is investing in developing technology to enable Japanese Murata spinning systems to convert from cotton and cotton/polyester blends to wool. The development and commercialisation of cost-effective, practical spinning technology for industry is a top priority for AWI. The aim of the Murata project is to produce high quality wool blend yarns and textiles for up to 50 per cent less, with the vision of reducing pipeline costs by 10 to 20 per cent while stimulating further demand for wool.

The Air Jet Spinning system will handle medium wools in blends for interior textiles. The Air Vortex Spinning system is suited to handling longer staple fine wools and blends for fine knitted fabrics. Both machines will be handling wool for the first time.

The new Air-Vortex Spinning machine, worth more than \$250,000, has just been shipped to Australia and assembled at CSIRO Geelong.

Pleasingly, a commercial partner is already interested in the production of interior textiles for industrial, domestic and commercial purposes using this system.

These two projects commenced in 2001-02 and are both on schedule, with preliminary commercial trials of prototypes of yarn and textile to be completed within one year.



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The potential to lift competitiveness through the wool processing sector has been examined, both through an investigation of the potential to expand processing and manufacturing in Australia and through research aimed at developing new technologies.

In April 2002 a study was commissioned to identify opportunities for the expansion of wool processing and manufacturing in Australia and determine the benefits to producers of greater value adding. This study is due for completion in late 2002.

In terms of technology improvements a wide range of projects are now underway with the aim of reducing costs and maintaining or improving product characteristics. AWI, in partnership with the CSIRO Division of Textiles and Fibre Technology and the Woolmark Company, is examining ways of converting traditional synthetic and cotton spinning systems for wool and wool blend use.

To complement this area of activity and to assist in further enhancing the technical efficiencies and economies of wool processing, a Technical Business Solutions program has been developed and implemented. This 'whole of wool' program undertakes technical support projects with processors throughout the global wool pipeline.

PRIORITY D

Wool sheep as good business – products, costs, profits, sustainability

From a shareholder perspective, one of the most effective ways of seeing a return on levy investment is through the direct application of technologies to the farm business situation. While AWI has ensured appropriate attention to innovation throughout the wool pipeline, it has also commenced a range of focused programs at the farm level.

Looking forward, the new Strategic Plan sets a goal of investing in programs that aim towards:

- doubling income per hectare of wool sheep after production costs;
- sustainably lowering average cost of production by 10 to 20 per cent; and
- heading off probable threats to future profitability.

One of the most basic – and contentious – areas of research is that of sheep breeding. In the initial start-up phase AWI undertook a detailed review of previous breeding and genetic programs with a view to implementing a program of innovative, commercially applicable sheep breeding technologies. As a result of this review a number of projects funded under the previous structure were not continued.

The approach has been to challenge researchers to identify the parameters of 21st century genetic breeding technology and look at ways of implementing a new program of innovative, commercially applicable technologies. The long term goal is to improve the productivity of producers through a well-developed and well-managed genetic research program.

Solid investment has been made in a range of genetic development research projects including:

- The National Selection Demonstration Flocks created to show the effects of alternate breeding strategies on flock performance;
- The Golden Ram project to identify sheep with the gene for immunity to worms;
- Part records in merino breeding which is testing samples of wool to refine the heritability of wool growth, the physical appearance of wool traits, taking account of the influence of different times of the year and the effect of effective length of wool growth needed to measure mean fibre diameter;
- Mapping the sheep genome and identifying genes to allow the wool industry to use DNA biotechnologies to increase production efficiency and wool quality more rapidly than conventional breeding.

In addition, AWI has consulted widely with industry and researchers on the development of a broader program of genetic improvements. In the second half of 2002 a major 10-year genetic development program will be announced. This program will lay down a significant industry investment that will deliver practical tools to producers with major advances in areas such as animal health and fleece value.

Pastures and nutrition is another key area of activity with the potential to measurably increase productivity per hectare, reduce costs and enhance profitability.

The National Annual Pasture Legume Improvement Program (NAPLIP) is a plant breeding project that has already generated new clover varieties plus a range of new annual legumes. With over 85 per cent of the national wool clip produced in high rainfall and cereal zones, alternative pasture rotations will significantly improve the performance of current farming systems.



By introducing innovative programs at the farm level, AWI is looking at effective ways of directly increasing sustainability and productivity for our shareholders.



Research is also under way into the genetic modification of subterranean clover varieties with the aim of reducing the reliance on phosphate fertilisers. New varieties of Phalaris pastures are being bred with improved resistance and better adaption to difficult environments. Completion of this project will aim to deliver three new varieties with enhanced characteristics for resistance in winter active phalaris, acid soil tolerance and suitability for hotter northern environments.

The practical application of improved pasture management has also been addressed by AWI through continued investment in the AWI Triple P program. This innovative program allows producers to identify the potential productivity and profitability of their own farming system through the use of paired paddock comparisons. The program has a high level of active participation and achievement with many producers managing to lift gross margins by over 20 per cent through more productive pasture management and increased stocking rates.

Enhancing the natural resource base to ensure the longer term sustainability of wool production is a significant area of activity for AWI and a major requirement on behalf of the community by the Australian Government. The major initiative in this

area – Land, Water & Wool – was launched in August 2001 by the Hon Warren Truss, Minister for Agriculture, Fisheries and Forestry. As an active program, the objective is to provide the Australian wool industry with the knowledge and tools to understand and minimise its environmental impact, while enhancing profitability and sustainability. The sub-programs addressing such issues as production from saline lands, managing native vegetation and biodiversity, managing rivers and improving water quality and managing climate variability are now in place and further work will be undertaken in this area during 2002-03.

In addition to the Land, Water & Wool program, a study to determine the ecological footprint of the industry and to develop an environmental stewardship strategy has been conducted. The report investigates the natural resource management components of wool production and other environmental impacts such as greenhouse gas emissions, pesticide usage and processing. The draft report from this study is now being assessed and it is likely that the results will be made available in the latter half of 2002.

Animal health and the development of innovations that minimise the impact of disease and treatments on sheep production have been a priority for AWI with losses due to blowflies, worms and other parasites estimated to cost wool producers hundreds of millions of dollars a year. An AWI shareholder survey ranked dealing with blowfly strike as the second highest investment priority (65 per cent) able to provide economic benefit to producers.

In April 2002 a Draft Animal Health Strategic Plan was released with a proposed budget of \$12 million over four years. It will address four key areas:

- internal parasites and scouring
- external parasites and residues
- diseases of sheep such as footrot, and
- exotic disease.

While a number of initiatives have already been funded, additional funds will be provided as necessary to take the RDI outcomes to our shareholders, via the commercial market place.

LAND, WATER & WOOL

The \$60 million sustainable environment project – Land, Water & Wool – is not about re-inventing the wheel but building further knowledge and providing producers with practical tools to enhance profitability and sustainability.

Developed with Land & Water Australia, the program was launched in August 2001.

A number of specific sub-programs have been developed and are currently being implemented in major wool production regions around Australia. The sub-programs address a range of natural resource management issues including:

- sustainable grazing for saline lands
- managing rivers and improving water quality
- managing climate variability
- sustainable grazing systems
- communication of Land, Water & Wool outcomes
- managing native vegetation and biodiversity
- managing pastoral country
- future woolscapes
- benchmarking.

The program is progressing well with several demonstration sites established and a number of local producer groups engaged to participate. A range of communication materials have been distributed in the mail and at a number of field days and conferences.



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As a result, AWI has now finalised the Sheep Health Strategy 2002-12 with the overall aim of returning levy payer investment through a reduction in animal health related losses.

In addition to the development of the strategy, research into key areas such as internal parasites has continued. Due to the gradual immunity of worms to existing drenches it has been estimated that internal parasites will cost the industry close to \$1 billion by the end of this decade.

As part of an effort to provide solutions to this costly problem, AWI conducted a global search for new drenching products. This approach has potentially paid off with the discovery of three as yet uncommercialised chemicals – a discovery that offers producers new weapons and a potential respite from the worm resistance problems. As well as having a potential long term impact on the problem, the commercial approach adopted by AWI offers the additional benefit of healthy royalties back to the company, allowing AWI to pursue its long term goal of funding some RDI through revenues not directly raised from shareholders.

Animal welfare issues also play a part in the research and development program with AWI having funded two separate competing technologies that will eliminate the need for conventional mulesing treatments. While both technologies represent vastly improved animal welfare over the current approach, the savings to wool producers, both in terms of time and money, represent a real return on the funds invested. Both of the technologies are simple treatments designed to remove wool permanently. As a secondary benefit a range of potential human pharmaceutical applications, with an estimated worth of \$100 million annually, are being explored. The products are both approaching commercialisation stage including the expensive regulatory stage pending registration for commercial use.

PRIORITY E

Understanding and adoption – relevant RDI and communication

The issue of understanding and adoption is central to AWI capturing long term support for its research, development and innovation program not only from wool producers, but also the community and business decision makers. AWI recognises that while it is ultimately up to businesses to individually decide whether to test or implement innovations, research must be targeted to marketplace needs and ensure it is relevant and important to users.

In addition to ensuring a mix of research, development and innovation initiatives, AWI intends to use a range of extension technologies to increase awareness and understanding among young people at school and higher education levels, as well as among parliamentarians and other community decision makers.

Under the new Strategic Plan the AWI commitment to understanding and adoption is clearly indicated as a priority area. Additional resources, both in terms of staff and the advancement of research, development and innovation projects will be introduced over the next reporting period.

During 2001-02, a range of methods were used to communicate research, development and innovation outcomes. As part of the commercial development process, each and every successful project was required to have a communication plan supported by appropriate resources. This process will be further developed over the coming year.

In order to support projects and assist in informing producers on activities undertaken on their behalf, AWI participated in a range of field days throughout Australia including Wagin Woolarama (WA), Australian Sheep and Wool Show (VIC), Campbelltown Show (TAS), Dubbo Merino Ram Sale (NSW), Hamilton Sheepvention (VIC) and Orange Field Days (NSW).

A series of BBQ and Bash events were also held throughout Australia to provide wool producers with personal contact and information on the areas their wool levy is being invested in.

To further expand these activities, AWI has now launched its own bi-monthly newspaper – Beyond the Bale – and is due to complete a redevelopment of the AWI website to ensure it better meets the needs of wool producers. Rural and regional media are also used extensively to communicate the company's activities.

TASMANIA: 8X5 WOOL PROFIT PROGRAM

On-farm technology transfer can mean something as basic as closely benchmarking clip data, recording staple length, micron count and fleece weight, either by computer or a consultant. While this operating procedure is standard for the 10 to 15 per cent of producers classified as innovators, it is by no means the standard for the industry.

AWI's \$1.75 million '8x5' Wool for Profit program currently underway in Tasmania is a good example of how practical on-farm projects can bring about positive results. Hinging on producer involvement and understanding, '8x5' is typical of all our RDI projects. Since commencing in April 2002, all eleven sub-projects scheduled to run over five years are now underway.

The highly regionalised series looks at existing technologies, altering and refining the business management approaches of those who have the potential to be top wool producers given a complete set of tools and systems. Participating producers have expressed encouragement over the increased business focus of '8x5' and its opportunity for group collaboration on financial results and strategies for profit. For many, this subject is typically a closed shop. The program has been designed to specifically break through present profit barriers.



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Research must be targeted to marketplace needs and ensure it is relevant and important to users.

FALKINER MEMORIAL FIELD STATION

The acquisition of the Falkiner Memorial Field Station – a 3,126 hectare property located 18 km north-east of Deniliquin in the NSW Riverina – has provided AWI with an exciting, practical challenge. The new farm management plans include irrigation refurbishment, land rehabilitation, the integrated use of sustainable natural resources, revegetation and grasslands management. The long term aim is to develop a wool RDI facility that will operate in accordance with strict commercially focused guidelines. Profits will be generated from the sale of all agricultural products from the Station, the success of specific RDI projects, the increased value of the land itself and from any demonstrations held on site. (The property was legally sold to AWI on 30 June 2002).

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During 2001-02 a number of projects with a technology transfer emphasis were conducted through AWI. These included:

- Bestwool 2010 – a Victorian producer-driven organisation that aims to increase profitability through developing skills and adoption of innovative practices;
- Woolpro – a network of Western Australian wool producer groups who actively benchmark performance and demonstrate how changes to farming practices, knowledge and skills can be applied to wool producing operations;
- Cicerone Focus Farm – a NSW wool producer-driven research, education and demonstration enterprise with the aim of encouraging the adoption of practices to increase sustainability and improve productivity and economic viability of grazing industries; and
- Adoption of Nemesis – a project to identify specific market incentives to encourage ram breeders to adopt Nemesis technology and selection for worm resistance.

In 2002-03 AWI will launch a new project designed to communicate to producers across the broad range of program activities. The AWI mobile showcase, containing a mix of interactive materials, static displays and online information will visit nominated field days and industry events, acting as a one-stop shop for producers seeking more information about AWI projects.

The aim of developing education support for the wool industry progressed during the year through a series of scholarships and through the development of a draft Education Strategy. While this draft strategy is now being further developed, information gathered through the process will be used for a series of educational products that will be made available as hard copy fact sheets and through the website.

In the longer term the development of the Understanding and Adoption priority will see a range of education and communication activities aimed at ensuring policymakers, consumers, researchers and entrepreneurs are aware of the economic, social and environmental benefits of the production of wool in Australia for subsequent use throughout the world.



During 2001-02 a number of projects with a technology transfer emphasis were conducted through AWI.

Projects 2001-02

AUSTRALIAN WOOL INNOVATION LIMITED INVESTMENT PORTFOLIO AS AT 30 JUNE 2002

The following list covers projects invested in as at 30 June 2002. Some legal constraints and commercial in-confidence requirements mean that sensitive projects in the earlier stages of development may not be identified. Summaries for each of the projects listed are available from AWI by calling 1800 070 099 (toll free) or can be accessed directly from the website at www.wool.com.au Each project is listed under the priority areas identified in the AWI Strategic and Operating Plans. These plans were sent to all shareholders in August 2002.

Priority A Inventiveness

ShearExpress

PARTNERS: AWI and Chain Shear Limited

The Australian Wool Fashion Awards

PARTNERS: AWI and The Australian Wool Fashion Awards

PIRDS

PARTNERS: AWI and producer groups

Wool down fill

PARTNERS: AWI and WRONZ

Priority B Market presence

Non-woven wool products

PARTNERS: AWI and WRONZ

Non-woven needle punch (Apparel)

PARTNERS: AWI and The Woolmark Company

Non-wovens Hydroentanglement

PARTNERS: AWI and The Woolmark Company

Sportwool™ outdoor

PARTNERS: AWI and The Woolmark Company

High performance linings

PARTNERS: AWI and The Woolmark Company

Sportwool™ fleece

PARTNERS: AWI and The Woolmark Company

Fibre modification to enhance skin comfort

PARTNERS: AWI and CSIRO

Enhanced wool properties through surface modification

PARTNERS: AWI and CSIRO

Contamination survey

PARTNERS: AWI and CSIRO

Total easy care jacketing

PARTNERS: AWI and The Woolmark Company

Next generation continuous top TEC products

PARTNERS: AWI and The Woolmark Company

Organic/ecologically friendly wool market study

PARTNERS: AWI and The Woolmark Company

Extending the Multifibre Arrangement (MFA) model

PARTNERS: AWI and
The Centre for International Economics

Free Trade Agreement of the Americas (FTAA)

PARTNERS: AWI and Trade Partnership Worldwide, LLC

Review of wool trade relations with Japan

PARTNERS: AWI and
The Australia – Japan Research Centre

Prospects for the expansion of wool processing and textile and clothing manufacturing in Australia

PARTNERS: AWI and
The Centre for International Economics
The Initiatives Group

China and the WTO

PARTNERS: AWI and
ACIL
GIS

Wool stretch pile fabric

PARTNERS: AWI and WRONZ

Pure wool business shirts

PARTNERS: AWI and WRONZ

Wrinkle resistant, easycare woven apparel

PARTNERS: AWI and CSIRO

Implications of the smart textiles revolution for Australian wool

PARTNERS: AWI and WRONZ

Plasma treatment of wool

PARTNERS: AWI and CSIRO

Permanent bright shades for wool

PARTNERS: AWI and CSIRO

Novel wool/cotton apparel

PARTNERS: AWI and CSIRO

Intelligent wool products

PARTNERS: AWI and CSIRO

Asia-Pacific Textiles and Clothing Forum (ASPAC) VI

Key World Trade Organisation issues

Priority C Industry competitiveness

Global wool pipeline study

PARTNERS: AWI and
Global Information Services Pty Ltd

Business intelligence services

PARTNERS: AWI and The Woolmark Company

Pesticide residues in wool

PARTNERS: AWI and
Department of Primary Industries
Water and Environment (Tas)
Department of Natural Resources and
Environment (Vic)

Communication of fibre to fabric outcomes

PARTNERS: AWI and CSIRO

Direct retail specifications

PARTNERS: AWI and TQW-Trading Pty Ltd

Murata Vortex spinning of fine wool

PARTNERS: AWI and CSIRO

Murata air-jet spinning of mid-micron wool

PARTNERS: AWI and CSIRO

Wool dyeing & finishing technician training course

PARTNERS: AWI and
CSIRO Textile and Fibre Technology

Short staple blend products

PARTNERS: AWI and The Woolmark Company

Metal free dyeing

PARTNERS: AWI and The Woolmark Company

Open ended spinning

PARTNERS: AWI and The Woolmark Company

Vietnamese mill audit for future development

PARTNERS: AWI and
CSIRO Textile and Fibre Technology

On-farm fibre measurement scoping paper

PARTNERS: AWI and GMAC Consulting

On-farm fibre measurement project

PARTNERS: AWI and GMAC Consulting

Decision support tools to enhance wool producer profitability

PARTNERS: AWI and University of New England

Strategic initiatives for future innovation in the wool industry

PARTNERS: AWI and ICT International

Machine washable tumble dry bedding

PARTNERS: AWI and The Woolmark Company

Machine washable wool blankets

PARTNERS: AWI and The Woolmark Company

Condensed spinning of wool

PARTNERS: AWI and CSIRO

Strategic grower industry intelligence services

PARTNERS: AWI and The Woolmark Company

ABARE wool survey

PARTNERS: AWI and Australian Bureau of
Agriculture and Resource Economics

Priority D Wool sheep as good business

Mapping the sheep genome

PARTNERS: AWI and
CSIRO Livestock Industries
University of Melbourne – School of
Veterinary Science
University of Adelaide

Part records in Merino breeding

PARTNERS: AWI and Agriculture Western Australia

SARDI Selection Demonstration Flocks

PARTNERS: AWI and
South Australian Research and
Development Institute

NAPLIP

PARTNERS: AWI and
Grains Research and
Development Corporation
Department of Natural Resources and
Environment (Vic)
Department of Agriculture Western
Australia
Queensland Department of Primary
Industries
NSW Agriculture
South Australian Research &
Development Institute

Genetically modified pastures

PARTNERS: AWI and CSIRO Plant Industry

Effective biological control of Paterson's curse and thistles

PARTNERS: AWI and
 Agriculture Western Australia
 CSIRO Entomology
 NSW Agriculture
 The Department of
 Natural Resources & Environment (Vic)
 Department of Primary
 Industry & Resources

Red legged earth mite control using Timerite®

PARTNERS: AWI and
 CSIRO Entomology
 Kondinin Group

Phalaris improvement

PARTNERS: AWI and CSIRO Plant Industry

Land, Water and Wool

PARTNERS: AWI and Land & Water Australia

Environmental stewardship report

PARTNERS: AWI and C4ES

Sustainable Control of Internal Parasites in Sheep (SCIPS) Review

PARTNERS: AWI and Dr Sandra J Wellsman

Breech strike prevention

PARTNERS: AWI and
 CSIRO Livestock Industries
 Virbac (Australia) Pty Limited

Adoption of Nemesis in Victoria

PARTNERS: AWI and University of Melbourne

Worm resistance versus scouring

PARTNERS: AWI and
 CSIRO Livestock Industries
 Agriculture Western Australia

Wormworld

PARTNERS: AWI and
 Agriculture Western Australia
 CSIRO Livestock Industries

Blowfly control with Lucitrap

PARTNERS: AWI and Queensland Department of
 Primary Industries

Wool production technologies

PARTNERS: AWI and Invetech Consulting

Diagnosis of parasites

PARTNERS: AWI and
 CSIRO Livestock Industries
 NSW Agriculture
 Agriculture Western Australia

Wool quality and quality control

PARTNERS: AWI and QA Pty Ltd

Farm health and safety

PARTNERS: AWI and
 Grains Research and Development
 Corporation
 Cotton Research and Development
 Corporation
 Sugar Research and Development
 Corporation
 Meat and Livestock Australia
 Rural Industries Research &
 Development Corporation

Producing flystrike resistant sheep

PARTNERS: AWI and University of Melbourne

Development and commercialisation of a lice detection test

PARTNERS: AWI and CSIRO Livestock Industries

Sustainable grain and grazing systems

PARTNERS: AWI and
 Land & Water Australia
 Meat & Livestock Australia
 Grains Research and Development
 Corporation

Proficiency assessment of residue testing laboratories

PARTNERS: AWI and
 National Residues Survey at Australian
 Fisheries, Forestry and Agriculture

Exotic diseases: A blueprint for wool industry investment

PARTNERS: AWI and Alwani Pty Ltd

The Australian wool industry and greenhouse gases

PARTNERS: AWI and HPM Nature Pty Ltd

Priority E

Understanding and adoption

AWI field day participation

GrassGro

PARTNERS: AWI and CSIRO Plant Industry

Bestprac in the rangelands

PARTNERS: AWI and
NSW Agriculture
Queensland Department of Primary
Industries
Agriculture Western Australia

Cicerone Focus Farm

PARTNERS: AWI and The Cicerone Project Inc

South Roxby Geelong

PARTNERS: AWI and
The MacKinnon Project University
of Melbourne

Bestwool 2010

PARTNERS: AWI and Department of Natural
Resources and Environment (Vic)

Woolpro in WA

PARTNERS: AWI and Agriculture Western Australia

Wool education strategy development

PARTNERS: AWI and Agknowledge

Investment initiatives market research

PARTNERS: AWI and TQA Research

Phosphorus decision brochure

PARTNERS: AWI and Agriculture Victoria Services

Pricemaker

PARTNERS: AWI and Woolmark Business Intelligence

SCARM Databases

PARTNERS: AWI and Department of Natural
Resources and Environment (Vic)

Sponsorship of 2002 Nature Conservation on Private Land Forum

PARTNERS: AWI and Nature Conservation
Foundation SA

Directors and governance

Board of directors

The six non-executive directors and the Managing Director provide a wide range of wool industry, scientific, marketing, commercial and financial experience.

The non-executive directors are subject to re-election at Annual General Meetings in accordance with the company's Constitution.

Board committees

The Audit Committee and the Finance Committee provide assistance to the Board on a range of matters including statutory compliance, the company's accounts, funds management and risk management.

The Audit Committee director members are Mr Donald Nelson (Chair) and Ms Maree McCaskill.

The Finance Committee director members are Ms Patricia Murphy (Chair) and Associate Professor Michael Staley.

The IP Management Committee comprises directors Associate Professor Michael Staley (Chair) and Managing Director Mr Col Dorber. AWI Manager, Business Development, Mr Peter Silk and Intellectual Property Consultant Mr John Russell are also appointed as members of this committee.

Risk management

The Board has insurance policies in place to protect the company's assets and activities. Other risks are identified and managed by management reporting, strategic planning, auditing and the functions of the Board Audit and Finance Committees.

Exposure to foreign exchange risks is minimal as the income is in Australian dollars and the expenditure is almost all in Australian dollars.

Director's interest

During the reporting period there were no transactions between any of the company's directors or director-related entities and the company and its associated entities. Associate Professor Andrew Vizard, who was a director during the reporting period, is a part-time employee of the University of Melbourne, which has contracts with the company. These contracts did not provide any direct or indirect pecuniary or non-pecuniary benefit to Associate Professor Vizard.

Organisation focus points

Strategies to actively progress Lines of Innovation

In order to progress appropriate investment in key areas, AWI has funded the development of strategic plans that focus on specific areas of activity. Examples include On-farm Fibre Measurement, Genetics and Animal Health. These can be viewed in more detail on our website www.wool.com.au

To assist in this process, discussion papers are made available and comments from industry are actively encouraged by AWI.

Structural development

In order to drive the implementation of the Strategic Plan, the organisational structure has been revised and appropriate resources provided to ensure AWI is positioned to meet the challenges posed.

While staff numbers have risen from 15 to 27, the overall structural development is in keeping with the original intent of the company, that is for AWI to run as a small, commercially focused operation. With the increased budget and expanded number of projects, increased staff – particularly in the project management and administration areas – have been appointed to ensure good business practice is maintained and effective management procedures are in place. Staff numbers are now at an appropriate level to deliver on the outcomes established as part of the strategic planning process.

ORGANISATIONAL STRUCTURE – BOARD AND SENIOR STAFF



Project development

Although work has already been undertaken in this area, the next twelve months will see additional attention given to providing clear measurement of direct and indirect returns and communicating these outcomes to stakeholders.

Further development of project assessment and evaluation processes will ensure benefits outlined at the commencement of a project can in fact be achieved and factually measured. Management processes now in place to ensure project 'fit' – both in terms of the AWI Strategic Plan and the wider relevance of the project to the marketplace – will be additionally refined to update areas such as risk management and project exit strategies.

Under the current process, project proposals must contain appropriate information on items such as:

- objectives
- benefit – environmental, social and financial
- performance indicators – timeframe, milestones, costs
- value for wool producers and AWI
- implementation plans
- commercial need
- regulatory, environmental and social considerations
- strategic fit.

The overall aim of improvements in this area is to maximise the return from each dollar of levy investment by giving projects the best possible chance to achieve their stated outcomes.

Performance measurement

AWI has always stressed that it will operate commercially and in a way that brings about improved profitability, productivity and sustainability for Australian wool producers. To ensure a true commercial focus requires a well structured approach from the inception of the project right through to the commercialisation of the results. Maintaining this focus requires the development of appropriate performance indicators and methods of evaluating project results and investment outcomes.

During 2001-02 systematic processes for project development and proposal evaluation were put in place. A two-staged approach was adopted with a process of concept and project proposals allowing a full evaluation of the activity and its fit against the objectives of the company and the direction of the Strategic Plan.

Realistic performance measures that can be related to the strategic direction were also designed for each project as part of the development process for the Strategic Plan 2002-07. AWI projects and the targets against which they will be assessed were clearly stated in the AWI Operating Plan 2002-03 that was circulated to all registered shareholders in July 2002.

While AWI has not provided a documented assessment of projects undertaken during 2001-02, over the next two years AWI intends to develop the proposal and evaluation process to reflect the overall strategies of the company. This will ensure the adoption of an improved reporting process to shareholders.

Looking forward, the Strategic Plan now in place has established a framework for measuring progress and recording advances made by AWI. Shareholders can now clearly see:

- An investment vision with a focus for priority identification and project assessment;
- Assessable aims for each 'Line of Innovation' or area of activity; and
- A series of rolling reports that demonstrate targets for key projects and provide baseline reporting for the coming years.

In 2001 the AWI Board set a target rate of return of 15 per cent per annum for the portfolio of projects, effective from 2004-05. The expectation was clearly established that this desirable rate of return on investment would be achieved progressively as commissioned projects enter the commercialisation phase.

The overall return on investment will be calculated as the sum of 'measured commercial benefit to producers' plus income from other sources using a common dollar year base. For each dollar invested, AWI will be aiming for a measurable return of one dollar plus 15 cents for each year that the dollar is in use. This is to be achieved in the form of value to producers and/or direct income to AWI, each calculated over the project contract life with assessed flow on effects added. This is a substantial challenge but one AWI is committed to attempt on behalf of shareholders.

Reviews, communication and ten year planning

AWI has strived to ensure it is open and accountable with strong communication links to its shareholders. Over the past twelve months AWI has reported to shareholders and stakeholders – and gained feedback – on all major issues affecting the operations of the company.

Project and program reviews and strategic planning have been conducted in a manner that encouraged wider involvement in the process. This input is reflected in the detailed consideration of industry requirements within the new strategic plan. The intention is to further improve this communication process (see separate report Page 40) to ensure a wider understanding of company developments.

Shareholders will also be provided with a detailed review of progress based against the Strategic and Operational Plans with the Statutory Review of Performance, due to commence in early 2003.

To advance the planning process, AWI will also take a lead role in the development of a ten-year industry vision against which decisions on the longer term research, development and innovation investments can be made.

CORPORATE PERFORMANCE MEASURES

In the future AWI intends to report on:

- Analysis of income and expenditure against projects;
- Federal priorities for statutory and governance purposes;
- Assessment of progress against aims for each line of innovation;
- Summaries of achievement or otherwise against targets for projects stated in the Operating Plan;
- Useful progress reports on exercises to assess 'measurable commercial value to producers' with links to AWI return on investment calculation; and
- Progress towards return on funds invested by research, development and innovation.

Financial issues

The issue of levy leakage was examined and will continue to be pursued over the coming year. Where possible, leakage will be identified and action taken to ensure that all wool produced or sold in Australia is levied equally and all levy commitments are paid.

Specific reports – commercialisation

As a commercially focused research, development and innovation company, AWI recognises the importance of encouraging an active, competitive marketplace for wool based industry inventiveness. It also recognises that there is a need to actively progress higher commercialisation of research and new technologies, removing obstacles to help spur the growth of innovation within the marketplace.

To protect levy payer investment, AWI evaluates likely risks and returns to shareholders before entering into a commercialisation venture. The risks involved with commercialisation and the development of critical intellectual property are considerable, ranging from difficulties with technical performance of products in commercial tests to establishing and then protecting potential royalties for new machinery, components, fabrics and know-how.

Since its inception AWI has worked hard to ensure all the processes are in place to protect the commercialisation of projects currently underway on behalf of shareholders. In its first full year, AWI has invested in ongoing or new concepts for new technology and is confident it is achieving the right ambitions and balance between research and commercial partners. The timely linkage of commercial partners to research activities is critical.

A good example of this new innovative relationship is the project to develop woollen products using non-woven technology. AWI has established a major three-year R&D program with WRONZ and is in the process of establishing a joint non-woven manufacturing facility in Australia with Australia's largest processor, Macquarie Textiles. It will be the first Australian non-wovens facility devoted to woollen products. The new plant now under development is a breakthrough on a number of levels, from the pioneering use of wool in non-woven textiles to the development of intellectual property and the establishment of ongoing links between the research industry and the retail market.

AWI recognises that innovative ideas sometimes need an equally innovative partner to bring about a commercial result. Rather than relying on research alone, the wool industry is actively cultivating direct links with partners who have the infrastructure to help with financial management and the development of product on a global scale. One of the most obvious developments within the

last year has been the emergence of AWI as a global presence and a key player with clearly defined goals linked to global RDI.

Under this new framework, innovative ideas can be sourced from anywhere – not only from rural research and development but from as far afield as the aeronautical, medical or military arenas. With such an aggressively open intellectual framework, AWI is able to act in the interest of wool shareholders by developing powerful new contacts in research, development and innovation around the globe.

It is this progressive, global stance that is leading to the formation of an increasing number of formal relationships with preferred international companies in the retail and cosmetic industries. These partner companies are now assisting and collaborating with AWI on a regular, contractual basis, providing the preferred framework for proposing new ways to work with wool and to develop new wool products for the world market.

Over the past year the approach adopted has directly addressed an identified gap in the Australian system of innovation, where applied research or experimental development ends and market introduction begins. A good example is the investment in ShearExpress, without which the final development phase of the technology would have been unlikely to occur. By taking into account the potential payoff for industry and judging this against the likely commercial risks, AWI is able to draw together innovation gaps and progress new developments that may bring about significant returns for Australian wool producers.

Regardless of the commercial vehicle, be it licensing intellectual property, buying equity in new or existing ventures, establishing start-up companies or forming joint ventures, the critical aspect for AWI has been the establishment and maintenance of solid industry collaboration and partnerships. Early industry participation is a critical factor in determining AWI's commitment to a project.



Photo courtesy of
The Land newspaper.

Macquarie Textiles Managing Director, John Lewis and AWI Managing Director Col Dorber are excited about the benefits non-woven wool will bring to the fashion industry.

“A weakness of the Australian innovation system is the innovation progression gap where applied research or experimental development ends and market introduction begins. This stage in the innovation process is prior to the point at which venture capitalists are normally prepared to invest.” Australian Research Council 2001

Promoting innovation – wool product and industrial marketing

During 2001-02 the question of potential roles for AWI in marketing and educational or promotion type activities has been raised from a number of perspectives.

Notably, AWI's survey of 2,230 shareholders found that 68 per cent thought that research to change wool's image to increase its market potential by being seen as part of everyday life could deliver economic benefit to their enterprise. Active discussion at the Rhetoric to Reality planning consultation forums in March 2002 also indicated that shareholder priorities include the marketing of RDI outcomes (as products or technologies) to wool pipeline businesses. Both AWI and forum attendees emphasised that these activities need to be distinguished from generic promotion.

AWI's new Strategic Plan 2002-07 identifies Market Presence as one of five Priorities to be addressed by AWI investment in RDI, all aiming towards the Investment Vision and measurable commercial value to producers. However, some approaches to developing wool's matter-of-fact market presence have prompted comment about AWI's role and mandate.

AWI recognises that potential AWI activity in wool product and industrial marketing may open questions. For this reason, AWI has developed an interpretation and discussion paper that considers the possible positioning of AWI activity in product, industrial and other forms of marketing.

The paper, 'Promoting Innovation' aims to present a balanced and realistic set of considerations. It provides background, interprets statutory provisions and develops three levels of AWI marketing activity for discussion. All exclude generic promotion. Each level would aim towards the five year RDI Investment Vision in the AWI Strategic Plan.

In preparing the interpretation and discussion paper, AWI reviewed reports by the Wool TaskForce 1999 and the Wool Working Party in 1999 and 2000, as well as the WoolPoll 2000 producer information kit. AWI also examined the statutory requirements and the outcomes of WoolPoll 2000.

The WoolPoll 2000 vote for 'Service Model 2 per cent' clearly supports a range of targeted industrial and product marketing activities. Within the framework of AWI's Strategic Plan and the Statutory Funding Agreement, AWI has a mandate from WoolPoll 2000 to develop the market presence of Australian wool by means of investment in RDI projects, associated industrial marketing and product marketing, as well as trade policy and market access research and input.

AWI will be progressing such marketing/education activities associated with RDI over the next year. To achieve usage of the new products and technologies developed through RDI investment, it is vital that these innovations be 'marketed' effectively to potential users along the pipeline.

The 'Promoting Innovation' discussion paper is available from AWI's website www.wool.com.au or by calling 1800 070 099 (toll free). AWI is seeking comments from producers and industry stakeholders on roles AWI should develop in marketing and product support. Ultimately the AWI Board of Directors will consider the responses received, and determine the company's future role in this area of Shareholder concern.

THE SENSORY TEXTILE ALLIANCE

The securing of relationships in other areas such as smart textiles is also firmly on AWI's agenda. The recent forging of a relationship between AWI and Britain's leading exponents of sensory textiles holds enormous commercial promise across a diverse number of areas from aged care, monitoring and recording human movement in medical situations to automotive applications as a safety device monitoring driver fatigue. Basically, anywhere 'thinking' fabric can go, wool can go too. AWI hopes wool will become the preferred fibre in this revolutionary area.

australian wool
another innovation
 • limited

AWI is constantly evaluating likely risks and returns to shareholders of AWI entering into a commercialisation venture. Considerations include market failure, true costing and IP protection. This requires a commercial focus applied at all stages of RDI project life from concept (market relevance) to technology launched into the market.

Critical to AWI's success is the identification, management and exploitation of IP. Bearing in mind our target of 15 per cent return on investment (ROI) by 2004, the legal protection of IP is critical to the financial fitness and ultimate independence of AWI.

As a general philosophy, investment in research, development and innovation is made on the basis that AWI funds the entire activity and thus owns the IP resulting from that investment. IP falls into three main categories:

- Technical – patents, plant varieties, registered designs, copyright, trade secrets involving know-how or confidential information;
- Brands – trade marks; and
- Registered business and domain names.

AWI currently has sole or shared interest in about 80 registrations of IP. A new AWI IP Register to satisfy corporate governance and IP best practice requirements is being integrated into business processes. The Register will track IP evolution through all stages of an RDI project and its commercial life. A further component of the Register will monitor all commercial contracts and agreements, and they will be cross-referenced to IP. The newly established IP committee will be responsible for providing detailed statements on this area of activity to AWI shareholders on an annual basis.

Specific reports – communications

Stakeholder communications

The best products in the world are worthless unless people know they are available and understand how they can be used to provide a real benefit. AWI understands this principal and the need to communicate effectively with shareholders about how levy funds are being spent. Over the past twelve months considerable effort has been made to keep wool producers informed and to establish strong two way communications.

In keeping with the approach adopted during the first few months of operations, direct mail – often in the form of 'letters to shareholders' – has been one of the ways in which producers have been personally informed on key issues. Work has also been completed on the development of an AWI newspaper, *Beyond the Bale*, which will deliver news on wool research, development and innovation to the farm door every two months.

A detailed communications strategy is now in place and a range of activities are being introduced and expanded in an effort to further improve the flow of communications.

Website

For anyone wanting to find out the latest information on AWI activities, research and development reports, discussion papers, market intelligence or even the latest wool industry news, the AWI website at www.wool.com.au is the place to visit. While it is now known as an information-rich repository, the longer term goal is to make the site even more user-friendly. A total rebuild of the site structure is due to be completed in the latter half of 2002. As part of this process, wool producers will be provided with a fast and effective email 'newsletter' service to deliver customised information on the AWI research, development and innovation activities.

Media program

Over the past twelve months AWI has issued 107 media releases throughout Australia. The take up of this information by media outlets has been strong with good coverage recorded, particularly in the weekly rural publications. Rural radio also been very receptive with the Managing Director alone recording some 159 interviews over the past year.

Producer communications

Each and every project undertaken by AWI is required to have clearly defined strategies to communicate outcomes and encourage uptake by wool producers. The object of this approach is to not only encourage wool producers to take an active interest in technology developments, but also to ensure that appropriate and effective communication occurs throughout the life of the project.

Where anyone has issues or concerns about any aspect of AWI operations they have been encouraged to make their views known directly and to play an active role in the long term development of the company. Seven BBQ and Bashes – events at which AWI host a BBQ and allow producers to 'bash' the ear of key senior staff – have been held with positive feedback gained from the process.

AWI is also now in the process of establishing a toll free 1800 helpdesk to ensure all producers have quick and convenient access to information about their levy investment. This service will be widely publicised and will allow AWI to closely monitor and respond to those issues identified as being of most concern to Australian wool producers.

Wool Advisory Group

In addition to encouraging open communications with wool producers, input into AWI programs was also received from the Wool Advisory Group and Women in Wool. In April these two bodies were combined into a single entity – a move that is expected to improve the operations and effectiveness of this group.

As the name suggests, the Wool Advisory Group is all about providing advice to AWI on program activities and helping the company better understand the needs of its shareholders. Over the period the group has worked with AWI staff to help shape the direction of activities undertaken in the areas of shearer and wool handler training, animal health, smart textiles, product and technical services and the revamped sustainable vegetation project. The WAG has also supported an AWI decision to develop a formal policy position concerning the appropriate future role for AWI in industrial marketing, product support and other commercial market based activities.



*For the latest information on
AWI innovations, visit our website at
www.wool.com.au*

Financial Statements 2002

Australian Wool Innovation Limited ABN 12 095 165 558

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Directors' Report

Your directors present their report on the consolidated entity consisting of Australian Wool Innovation Limited and the entities it controlled at the year ended 30 June 2002.

Directors

The following persons were directors of Australian Wool Innovation Limited for the whole of the financial year and until the date of this report.

Ms M P McCaskill (Chairman)
 Mr C J Dorber (Managing Director)
 Mrs P A Murphy
 Associate Professor M Staley

Mr D Nelson was appointed as a director on 11 March 2002 and continues to hold office at the date of this report.

Professor A Trounson was appointed as a director on 7 August 2002 and continues to hold office at the date of this report.

Mr P Sykes was appointed as a director on 14 August 2002 and continues to hold office at the date of this report.

Mr J Patten was a director from the beginning of the financial year until his resignation on 11 March 2002.

Dr A L Vizard was a director from the beginning of the financial year until his resignation on 14 June 2002.

Review of operations and results

| | 2002 \$'000 | 1/1/2001 – 30/6/2001 \$'000 |
|----------------------------------|----------------|-----------------------------------|
| Revenue | 71,068 | 32,765 |
| Surplus from ordinary activities | 30,177 | 21,593 |

Dividends paid

There have been no dividends paid or recommended for the 2002 financial year (2001: Nil)

Share options

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

Principal activities

The principal activity of Australian Wool Innovation Limited as recorded in its adopted strategic plan is to drive innovation that will increase the profitability and sustainability of Australian wool producers and to provide wool services. 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 producers and a capped matching contribution from the Government on behalf of Australian taxpayers.

Significant changes in the state of affairs

The company was demutualised from Australian Wool Services Limited, its immediate parent entity, on 30 April 2002, and has subsequently changed the company's name to Australian Wool Innovation Limited on 1 May 2002.

Matters subsequent to the end of the financial year

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

Likely developments and expected results of operations

The company is expected to open an office in Beijing, China. Details of the company's activities can be found in the company's strategic plan.

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*.

Directors' Report (continued)

Information on directors

| Director | Experience | Special responsibilities |
|--|---|--|
| <p>M P McCaskill</p>  | <p>Currently CEO of the Beverage Industry Environment Council and was the former Chief Executive of the Australian Cotton Foundation. She has held positions on a range of boards and advisory committees including the scientific and ethics review committees of NSW Agriculture Elizabeth Macarthur Research Institute, Biotech Australia, Red Cross Blood Bank and Transfusion Service. She was appointed by the Federal Government to the National Environment Education Council and the National Packaging Covenant Council and continues to serve on both.</p> | <p>Chairman of the AWI Board Member Internal Audit Committee</p> |
| <p>C J Dorber</p>  | <p>Currently Managing Director of AWI Limited. He is also currently the Chair of ShearExpress Pty Ltd. Prior to joining AWI, Mr Dorber was executive director of the New South Wales Forest Products Association Limited, Secretary and Public Officer of the Timber Trade Industrial Association, Secretary and Public Officer of the Australian Logging Council Ltd, director of NSW Forest Industries Training Board Limited, Industry Member of the NSW Resource and Conservation Assessment Council, and is currently a director of a family company Callwash Pty Limited, and The Clean Green Energy Company Limited.</p> | <p>Managing Director of AWI Ex officio participant in Board Finance, Internal Audit and IP Management Committee</p> |
| <p>P A Murphy</p>  | <p>Professional background in economics and finance having spent eight years with the State Bank of NSW in the corporate finance area and in the Treasury Division as a derivatives and currency trader. In the rural sector she has worked with NSW Agriculture as an economist and with Meat and Livestock Australia in the Sustainable Grazing Systems project. Currently Mrs Murphy is a member of the Riverina Regional Development Board and a director of companies involved in medical and hardware distribution and sales.</p> | <p>Member of the Riverina Regional Development Board Director of companies involved in medical and hardware distribution and sales Chair Board Finance Committee</p> |
| <p>M Staley</p>  | <p>Currently Chief Operating Officer and Secretary of the Queensland Institute of Medical Research. He is on the Board of the Co-operative Research Centre (CRC) for the Discovery of Genes for Common Human Diseases and is a member of the Commercialisation Committee for the CRC for Vaccine Technology. Associate Professor Staley is a director of Vaccine Solutions (a spin-off company for the CRC for Vaccine Technology), Saramane and Q Pharm. He is also currently a director of ShearExpress Pty Ltd.</p> | <p>Chief Operating Officer and Secretary of the Queensland Institute of Medical Research Chair Board IP Committee Member Finance Committee</p> |
| <p>D Nelson</p>  | <p>Currently General Manager of Western Operations for Plexus Cotton Limited of Liverpool, England. His main responsibilities involve the development of the Chinese market and all reorganisation that will take place with China's accession to the WTO. Mr Nelson has recently left his position as Vice President Marketing for J G Boswell Company after 23 years. J G Boswell Company is a diversified agricultural company with production holdings in California, USA and in NSW, Australia. Mr Nelson has had committee and/or board involvement with Cotton Incorporated, Supima Association of America, American Textile Manufacturers Association and International Textile Manufacturers Federation.</p> | <p>General Manager of West Coast Operations Chair Board Internal Audit Committee</p> |

Directors' Report (continued)

| Director | Experience | Special responsibilities |
|---|--|---|
| J Patten  | Currently the Deputy Chairman of the South Australian Totalisator Board (TAB) and a board member of the South Australian Lotteries Commission. He also currently serves as a director of the South Australian Motor Sports Board and of several private company groups. Mr Patten previously held the position of Managing Director of IHL, a broad based wholesaler and was a Director, Harris Scarfe (Deputy Chair). | Deputy Chairman of the South Australian Totalisator Board (TAB) Date resigned: 11 March 2002 |
| A L Vizard  | An Associate Professor in the Faculty of Veterinary Science and was the former director of the Mackinnon Project at the University of Melbourne. Dr Vizard helps run Roxby Park, a superfine wool growing farm near Geelong in Victoria. He is currently Chairman of Vital Capital Ltd, and a director of The Melbourne Zoological Gardens Board and Ridley Corporation Ltd. Dr Vizard was formerly a member of the AWRAP/The Woolmark Company boards. | Associate Professor in the Faculty of Veterinary Science Date resigned: 14 June 2002 |
| A Trounson  | Professor Alan Trounson was a graduate of Wool & Pastoral Sciences and until recently a sheep breeder in the Ballarat district. He is presently Deputy Director of the Institute of Reproduction and Development, and Professor of Obstetrics and Gynaecology and Paediatrics at Monash University. He founded the Co-operative Research Centre for Innovative Dairy Products and is the CEO elect of the new National Biotechnology Centre of Excellence - National Stem Cell Centre. He has won a number of awards for his contributions to medical research both in Australia and overseas. | Deputy Director of Institute of Reproduction and Development at Monash University Date appointed: 7 August 2002 |
| P Sykes  | Currently Managing Director of Woolaby Australia, a business focusing on research, product development, marketing and retail within the wool industry. He is also a director of G A Sykes and Sons, and is an AWI shareholder running 7,000 merino sheep and 700 beef cattle in Southern NSW. Mr Sykes has nine years experience in Financial Markets with Westpac Banking Corporation in Money Market Trading, Risk Management and Distribution. | Managing Director of Woolaby Australia Date appointed: 14 August 2002 |

Meetings of directors

| Director | Full meeting of directors | |
|---------------|---------------------------|----|
| | A | B |
| M P McCaskill | 10 | 10 |
| C J Dorber | 10 | 10 |
| P A Murphy | 10 | 10 |
| M Staley | 10 | 10 |
| D Nelson | 3 | 3 |
| J Patten | 7 | 7 |
| A L Vizard | 8 | 8 |

A = Number of meetings attended.

B = Number of meetings held during the time the director held office.

Insurance of officers

During the year, Australian Wool Innovation Limited insured the directors of the company against liability. The nature of the insurance and amount of the premium are prohibited from disclosure by virtue of the insurance contract.

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 directors' report and the accounts. Amounts in the directors' report and accounts have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Statutory funding agreement obligations

The following additional requirements are imposed upon the company as a consequence of a Statutory Funding Agreement entered into between Australian Wool Innovation Limited and the Commonwealth of Australia by virtue of Schedule 3 of that Agreement.

Those matters not elsewhere dealt with in this annual report include:

1. Reporting against planning milestones and key performance indicators.
2. Collaboration with industry and other research providers.
3. Commercialisation.
4. Intellectual property creation and protection.
5. Subsidiaries and joint ventures formed.
6. Material changes to the membership of the company.
7. Other significant matters notified to the company by the Commonwealth from time to time.

In accordance with Schedule 3 of the Statutory Funding Agreement between the Commonwealth of Australia, represented by the Minister for Agriculture, Fisheries and Forestry, Australian Wool Innovation Limited ("AWI") and AWRAP (now Australian Wool Services Limited), AWI will report against the above mentioned items direct to Government.

In addition to the above matters, the company is also required to report the following matters:

1. The Annual Report, or a separate report if desired by the company, will cover research and development activities, with reference to:
 - (a) the extent to which research and development activities reflect the research and development priorities of the Commonwealth and achieved public benefits, collaboration with industry and other research organisations;
 - (b) funds spent on each significant research, development and innovation activity and project allowing identification of expenditures of Commonwealth Matching Funds;
 - (c) research and development agreements entered into by the company with third parties; and
 - (d) management of intellectual property arising from research and development activities or acquired with the Funds.

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.



Maree McCaskill
Chairman

29 August 2002



Col Dorber
Managing Director

29 August 2002

Statement of Financial Performance For the year ended 30 June 2002

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|-------|----------------|------------------------------------|----------------|------------------------------------|
| | | 2002 \$'000 | 1/1/2001 to 30/6/2001 \$'000 | 2002 \$'000 | 1/1/2001 to 30/6/2001 \$'000 |
| Revenues from ordinary activities | 3 | 71,068 | 32,765 | 71,068 | 32,765 |
| Transitional payments | | – | (2,922) | – | (2,922) |
| Operational costs | | (2,898) | (1,480) | (2,898) | (1,480) |
| Depreciation and amortisation | | (112) | (57) | (112) | (57) |
| Research, development and innovation | | (31,793) | (6,713) | (31,793) | (6,713) |
| Write-down in interest on properties for resale | | (6,088) | – | (6,088) | – |
| Surplus from ordinary activities | | 30,177 | 21,593 | 30,177 | 21,593 |
| Total changes in equity other than those resulting from transactions with owners as owners | | 30,177 | 21,593 | 30,177 | 21,593 |

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

Statement of Financial Position As at 30 June 2002

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|--------------------------------|-------|----------------|----------------|----------------|----------------|
| | | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 |
| Current assets | | | | | |
| Cash assets | 5 | 66,629 | 26,318 | 66,629 | 26,318 |
| Receivables | 6 | 5,443 | 17,592 | 5,443 | 17,592 |
| Other | 7 | 24,149 | 30,694 | 24,149 | 30,694 |
| Total current assets | | 96,221 | 74,604 | 96,221 | 74,604 |
| Non-current assets | | | | | |
| Property, plant and equipment | 8 | 2,383 | 1,596 | 2,383 | 1,596 |
| Investment properties | 9 | 1,373 | - | 1,373 | - |
| Total non-current assets | | 3,756 | 1,596 | 3,756 | 1,596 |
| Total assets | | 99,977 | 76,200 | 99,977 | 76,200 |
| Current liabilities | | | | | |
| Payables | 10 | 4,269 | 13,733 | 4,269 | 13,733 |
| Interest bearing liabilities | 11 | 2,480 | 126 | 2,480 | 126 |
| Provisions | 12 | 345 | 89 | 345 | 89 |
| Other | 13 | 363 | - | 363 | - |
| Total current liabilities | | 7,457 | 13,948 | 7,457 | 13,948 |
| Non-current liabilities | | | | | |
| Provisions | 14 | 1,473 | 1,382 | 1,473 | 1,382 |
| Total non-current liabilities | | 1,473 | 1,382 | 1,473 | 1,382 |
| Total liabilities | | 8,930 | 15,330 | 8,930 | 15,330 |
| Net assets | | 91,047 | 60,870 | 91,047 | 60,870 |
| Equity | | | | | |
| Contributed equity* | 15 | - | - | - | - |
| Retained surplus | 16 | 91,047 | 60,870 | 91,047 | 60,870 |
| Total equity | | 91,047 | 60,870 | 91,047 | 60,870 |

* At 30 June 2002 contributed equity in the consolidated entity and the parent entity 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 2002

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|-------|----------------|------------------------------------|----------------|------------------------------------|
| | | 2002 \$'000 | 1/1/2001 to 30/6/2001 \$'000 | 2002 \$'000 | 1/1/2001 to 30/6/2001 \$'000 |
| Cash flows from operating activities | | | | | |
| Receipts from customers (inclusive of goods and services tax) | | 88,512 | 22,592 | 88,512 | 22,592 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (51,688) | (1,715) | (51,688) | (1,715) |
| | | 36,824 | 20,877 | 36,824 | 20,877 |
| Interest received | | 2,092 | 461 | 2,092 | 461 |
| Other revenue | | 701 | 766 | 701 | 766 |
| Net cash inflow from operating activities | 26 | 39,617 | 22,104 | 39,617 | 22,104 |
| Cash flows from investing activities | | | | | |
| Payments for property, plant and equipment | | (1,660) | (2,023) | (1,660) | (2,023) |
| Proceeds from sale of property, plant and equipment | | – | 206 | – | 206 |
| Net cash outflow from investing activities | | (1,660) | (1,817) | (1,660) | (1,817) |
| Net increase in cash held | | 37,957 | 20,287 | 37,957 | 20,287 |
| Cash at the beginning of the financial period | | 26,192 | 5,905 | 26,192 | 5,905 |
| Cash at the end of the financial period | 5 | 64,149 | 26,192 | 64,149 | 26,192 |

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

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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.

It is prepared in accordance with 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.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Australian Wool Innovation Limited as at 30 June 2002 and the results of all controlled entities for the year then ended. Australian Wool Innovation Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

(b) Abbreviations

| | |
|-------|---|
| AWI | Australian Wool Innovation |
| AWRAP | Australian Wool Research and Promotion Organisation |
| AWS | Australian Wool Services Limited |
| CSL | Chain Shearing Limited |
| SEPL | ShearExpress Pty Limited |
| TWC | The Woolmark Company |
| TWCH | TWC Holding Pty Limited |

(c) Income tax

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

(d) 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 the date of contract. AWI does not enter into contracts in foreign currencies.

(e) Acquisition of assets

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

(f) 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.

(g) 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.

(h) 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.

(i) Revaluations of non-current assets

Land and buildings are recognised at cost. Investment properties are measured at fair value, being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction. Revaluations are made with sufficient regularity to ensure that the carrying amount of each piece of land and each building does not differ materially from its fair value at reporting date. Annual assessments are made by the directors, supplemented by independent assessments at least every three years.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss.

Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

(j) 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.

(k) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued 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 |

(l) 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 consolidate entity, whichever is the shorter. Leasehold improvements held at reporting date are being amortised over seven years.

(m) 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.

(n) Employee entitlements

(I) WAGES, SALARIES AND ANNUAL LEAVE

Liabilities for wages, salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(II) LONG SERVICE LEAVE

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(o) 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 2002.

(p) 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.

Note 2. Segment information

Business segments

Australian Wool Innovation Limited operates predominately in research, development and innovation and the provision of wool services not otherwise widely available to the wool industry.

Geographical segments

Australian Wool Innovation Limited operates in one geographic segment, that being Australia. AWI also facilitates the conduct of research, development and innovation in overseas countries.

Note 3. Revenue

Revenue from operating activities

| | CONSOLIDATED | | PARENT ENTITY | |
|--|--------------|-----------------------|---------------|-----------------------|
| | 2002 | 1/1/2001 to 30/6/2001 | 2002 | 1/1/2001 to 30/6/2001 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Contributions | 14,428 | 5,745 | 14,428 | 5,745 |
| Sale of goods and services | 168 | 84 | 168 | 84 |
| Royalties | 459 | 114 | 459 | 114 |
| Wool levy | 53,733 | 25,951 | 53,733 | 25,951 |
| Wool tax | 115 | 244 | 115 | 244 |
| | 68,903 | 32,138 | 68,903 | 32,138 |
| Revenue from outside the operating activities | | | | |
| Rental income | 73 | 166 | 73 | 166 |
| Interest | 2,092 | 461 | 2,092 | 461 |
| | 2,165 | 627 | 2,165 | 627 |
| Revenue from ordinary activities | 71,068 | 32,765 | 71,068 | 32,765 |

| | CONSOLIDATED | | PARENT ENTITY | |
|--|----------------|------------------------------------|----------------|------------------------------------|
| | 2002 \$'000 | 1/1/2001 to 30/6/2001 \$'000 | 2002 \$'000 | 1/1/2001 to 30/6/2001 \$'000 |
| Note 4. Surplus from ordinary activities | | | | |
| (a) Net gains and expenses | | | | |
| Surplus from ordinary activities includes the following specific net gains and expenses: | | | | |
| Expenses | | | | |
| Depreciation | | | | |
| Buildings | - | 11 | - | 11 |
| Plant and equipment | 102 | 46 | 102 | 46 |
| Total depreciation | 102 | 57 | 102 | 57 |
| Net loss on disposal of property, plant and equipment | - | 6 | - | 6 |
| Other provisions | | | | |
| Employee entitlements | 268 | 311 | 268 | 311 |
| Rental expense relating to operating leases | 62 | - | 62 | - |
| (b) Individually significant items | | | | |
| Expenses | | | | |
| Write-down in value of the company's interest in Armidale, Geelong and Prospect properties | 4,260 | - | 4,260 | - |
| Write-down in value of the company's interest in Bakers Hill property | 1,224 | - | 1,224 | - |
| Write-down in value of the company's interest in Memorial Field Station property | 1,204 | - | 1,204 | - |
| | 6,688 | - | 6,688 | - |

| | CONSOLIDATED | | PARENT ENTITY | |
|---|----------------|----------------|----------------|----------------|
| | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 |
| Note 5. Current assets – Cash assets | | | | |
| Cash on hand and at bank | 3 | - | 3 | - |
| Funds under management | 66,626 | 26,318 | 66,626 | 26,318 |
| | 66,629 | 26,318 | 66,629 | 26,318 |
| The above figures are reconciled to cash at the end of the financial period as shown in the statement of cash flows as follows: | | | | |
| Balances as above | 66,629 | 26,318 | 66,629 | 26,318 |
| Less: Bank overdrafts (note 11) | 2,480 | 126 | 2,480 | 126 |
| Balances as per statement of cash flows | 64,149 | 26,192 | 64,149 | 26,192 |

| | | | | |
|---|-------|--------|-------|--------|
| Note 6. Current assets – Receivables | | | | |
| Trade debtors | 171 | 1,074 | 171 | 1,074 |
| Accrued wool levy | 5,272 | 8,668 | 5,272 | 8,668 |
| Accrued government contribution | - | 7,850 | - | 7,850 |
| | 5,443 | 17,592 | 5,443 | 17,592 |

| | CONSOLIDATED | | PARENT ENTITY | |
|--|----------------|----------------|----------------|----------------|
| | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 |
| Note 7. Current assets – Other | | | | |
| Goods and services tax receivable | 47 | – | 47 | – |
| Prepayments | 102 | 6 | 102 | 6 |
| Interest in properties held for resale | 24,000 | 30,688 | 24,000 | 30,688 |
| | 24,149 | 30,694 | 24,149 | 30,694 |

As at 30 June 2002 Australian Wool Innovation Limited and the CSIRO had entered into an agreement to conclude any equity (real or perceived) in a number of properties owned by the CSIRO. AWI Limited will receive an agreed settlement of property and cash subsequent to the sale of certain CSIRO interests. Based on the agreed settlement terms with the CSIRO, the interests in the property portfolio has been written down by \$6.088 million at 30 June 2002. Settlement in relation to one property, namely the Falkiner Memorial Field Station located in Deniliquin, NSW, occurred on 30 June 2002.

| | CONSOLIDATED | | PARENT ENTITY | |
|---|----------------|----------------|----------------|----------------|
| | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 |
| Note 8. Non-current assets – Property, plant and equipment | | | | |
| Land and buildings | | | | |
| Freehold land – at cost | 650 | – | 650 | – |
| Buildings | | | | |
| At cost | 599 | 1,373 | 599 | 1,373 |
| Less: Accumulated depreciation | (9) | (11) | (9) | (11) |
| | 590 | 1,362 | 590 | 1,362 |
| Total land and buildings | 1,240 | 1,362 | 1,240 | 1,362 |
| Plant and equipment | | | | |
| Plant and equipment | | | | |
| At cost | 1,262 | 251 | 1,262 | 251 |
| Less: Accumulated depreciation | (119) | (17) | (119) | (17) |
| | 1,143 | 234 | 1,143 | 234 |
| Total plant and equipment | 1,143 | 234 | 1,143 | 234 |
| | 2,383 | 1,596 | 2,383 | 1,596 |

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial period are set out below:

| | BUILDINGS \$'000 | PLANT AND EQUIPMENT \$'000 | TOTAL \$'000 |
|-----------------------------------|---------------------|----------------------------------|-----------------|
| Carrying amount at 1 July 2001 | 1,362 | 234 | 1,596 |
| Additions | 1,246 | 1,011 | 2,257 |
| Transfer to investment properties | (1,368) | – | (1,368) |
| Depreciation/amortisation expense | – | (102) | (102) |
| Carrying amount at 30 June 2002 | 1,240 | 1,143 | 2,383 |

| | CONSOLIDATED | | PARENT ENTITY | |
|--|----------------|----------------|----------------|----------------|
| | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 |
| Note 9. Non-current assets – Investment properties | | | | |
| Investment properties | | | | |
| At directors' valuation | 1,373 | – | 1,373 | – |
| Note 10. Current liabilities – Payables | | | | |
| Unsecured | | | | |
| Trade creditors | 136 | 5,325 | 136 | 5,325 |
| Other payables – project payments | 4,133 | – | 4,133 | – |
| Transitional wool levy payable to TWCH | – | 8,408 | – | 8,408 |
| | 4,269 | 13,733 | 4,269 | 13,733 |
| Note 11. Current liabilities – Interest bearing liabilities | | | | |
| Unsecured | | | | |
| Bank overdraft (note 5) | 2,480 | 126 | 2,480 | 126 |
| Note 12. Current liabilities – Provisions | | | | |
| Provisions – annual leave | 274 | 78 | 274 | 78 |
| Provisions – other employee entitlements | 71 | 11 | 71 | 11 |
| | 345 | 89 | 345 | 89 |
| Note 13. Current liabilities – Other | | | | |
| Accrued expenses | 363 | – | 363 | – |
| Note 14. Non-current liabilities – Provisions | | | | |
| Provisions – long service leave | 137 | 48 | 137 | 48 |
| Provisions – other* | 1,336 | 1,334 | 1,336 | 1,334 |
| | 1,473 | 1,382 | 1,473 | 1,382 |

* Relates to pre-AWI transitional adjustment allowance – various resource providers.

| | PARENT ENTITY | | PARENT ENTITY | |
|------------------------------------|---------------|--------|---------------|------|
| | 2002 | 2001 | 2002 | 2001 |
| | Shares | Shares | \$ | \$ |
| Note 15. Contributed equity | | | | |
| (a) Share capital | | | | |
| Ordinary shares – fully paid | 36,632 | 100 | 100 | 100 |

(b) Ordinary shares

The \$100 represents a voting right for 36,632 Australian wool producers. Each wool producer has a right to one vote for every \$100 of wool tax contributed, provided that the wool producer pays a prescribed minimum amount of wool tax or wool levy as defined in the *Wool Services Privatisation Act 2000* (Cth). These shares do not entitle wool producers to participate in any profit distributions or on any proceeds on the winding up the entity.

(c) Movements in ordinary share capital

| Date | Details | Number of shares | Issue price | \$ |
|--------------|----------------------------------|------------------|-------------|-----|
| 1 July 2001 | Opening balance | 100 | – | 100 |
| 1 May 2002 | Share issue on demerger from AWS | 36,532 | Nil | Nil |
| 30 June 2002 | Balance | 36,632 | – | 100 |

| | CONSOLIDATED | | PARENT ENTITY | |
|--|--------------|--------|---------------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Note 16. Retained surplus | | | | |
| Retained surplus at the beginning of the financial year | 60,870 | 39,277 | 60,870 | 39,277 |
| Net surplus attributable to shareholders of Australian Wool Innovation Limited | 30,177 | 21,593 | 30,177 | 21,593 |
| Retained surplus at the end of the financial year | 91,047 | 60,870 | 91,047 | 60,870 |

Note 17. Financial instruments

(a) Credit risk exposures

The consolidated 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 consolidated 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 AA- (long term) and A1+ (short term) as rated by Standard and Poor's Australian Standards. AWI manages all risks by only approving expenditure in Australian dollars with a fixed exchange rate set at the rate prevailing at 4.00 pm the day before any contract is signed.

Australian Wool Innovation Limited holds surplus funds in managed funds.

| 2002 | Notes | Weighted average interest rate % | Fixed interest maturing in: Floating interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|------------------------------|-------|----------------------------------|--|-----------------------------|--------------|
| Financial assets | | | | | |
| Cash and deposits | 5 | – | – | 3 | 3 |
| Funds under management | 5 | 4.94 | 66,626 | – | 66,626 |
| Receivables | 6 | – | – | 5,443 | 5,443 |
| | | | 66,626 | 5,446 | 72,072 |
| Financial liabilities | | | | | |
| Bank overdraft and loans | 11 | 4.25 | (2,480) | – | (2,480) |
| Trade and other creditors | 10 | – | – | (4,269) | (4,269) |
| | | | (2,480) | (4,269) | (6,749) |
| Net financial assets | | | 64,146 | 1,177 | 65,323 |

| 2001 | Notes | Weighted average interest rate % | Fixed interest maturing in: Floating interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|------------------------------|-------|----------------------------------|--|-----------------------------|--------------|
| Financial assets | | | | | |
| Funds under management | 5 | 4.89 | 26,318 | – | 26,318 |
| Receivables | 6 | – | – | 17,592 | 17,592 |
| | | | 26,318 | 17,592 | 43,910 |
| Financial liabilities | | | | | |
| Bank overdrafts and loans | 11 | 4.50 | (126) | – | (126) |
| Trade and other creditors | 10 | – | – | (13,733) | (13,733) |
| | | | (126) | (13,733) | (13,859) |
| Net financial assets | | | 26,192 | 3,859 | 30,051 |

(b) 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.

The net fair value of the funds under management is its carrying value as at 30 June 2002.

The carrying amounts and net fair values of financial assets and liabilities at reporting date are:

| | 2002 | | 2001 | |
|---|---------------------------|--------------------------|---------------------------|--------------------------|
| | Carrying amount \$'000 | Net fair value \$'000 | Carrying amount \$'000 | Net fair value \$'000 |
| On-balance financial instruments | | | | |
| Financial assets | | | | |
| Cash | 3 | 3 | - | - |
| Receivables | 5,443 | 5,443 | 17,592 | 17,592 |
| Funds under management | 66,626 | 66,626 | 26,318 | 26,318 |
| Non-traded financial assets | 72,072 | 72,072 | 43,910 | 43,910 |
| Financial liabilities | | | | |
| Trade and other creditors | 4,269 | 4,269 | 13,733 | 13,733 |
| Bank overdraft | 2,480 | 2,480 | 126 | 126 |
| Non-traded financial liabilities | 6,749 | 6,749 | 13,859 | 13,859 |

| | CONSOLIDATED | | PARENT ENTITY | |
|---|--------------|------------|---------------|------------|
| | 2002 \$ | 2001 \$ | 2002 \$ | 2001 \$ |
| Note 18. Remuneration of directors | | | | |
| Income paid or payable, or otherwise made available, to directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity and its controlled entities. | 757,280 | 237,531 | 757,280 | 237,531 |

The numbers of company directors whose total income (inclusive of all benefits and fringe benefits tax) from the company or related parties was within the specified bands are as follows:

| \$ | \$ | 2002 | 2001 |
|-------------------|----|------|------|
| 10,001 – 20,000 | | 1 | 1 |
| 20,001 – 30,000 | | - | 3 |
| 40,001 – 50,000 | | 1 | 1 |
| 50,001 – 60,000 | | 2 | - |
| 60,001 – 70,000 | | 1 | - |
| 100,001 – 110,000 | | 1 | 1 |
| 410,001 – 420,000 | | 1 | - |

| | CONSOLIDATED | | PARENT ENTITY | |
|---|--------------|--------|---------------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Note 19. Remuneration of auditors | | | | |
| During the year the auditor of the parent entity and its related practices earned the following remuneration: | | | | |
| Auditor or review of the financial reports of the entity or any entity in the consolidated entity | 46,500 | 19,500 | 40,000 | 19,500 |
| Remuneration for other services | | | | |
| Auditor of the company – PricewaterhouseCoopers | 118,471 | 2,000 | 118,471 | 2,000 |
| Total remuneration | 164,971 | 21,500 | 158,471 | 21,500 |

| | CONSOLIDATED | | PARENT ENTITY | |
|--|--------------|--------|---------------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Note 20. Commitments for expenditure | | | | |
| Other commitments | | | | |
| 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 | 29,157 | 9,122 | 29,157 | 9,122 |
| Later than one year but not later than five years | 31,448 | 4,256 | 31,448 | 4,256 |
| Later than five years | 401 | 84 | 401 | 84 |
| | 61,006 | 13,462 | 61,006 | 13,462 |

The wool producer component of levy funds is subject to review each three years with the next review at the end of January 2004. The company reasonably expects that subsequent to such reviews that it would meet all its financial obligations.

Lease commitments

AWI leases premises in Geelong, Victoria, Canberra, ACT and Sydney, NSW

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

| | | | | |
|---|-----|-----|-----|-----|
| Within one year | 411 | 167 | 411 | 167 |
| Later than one year but not later than five years | 577 | 334 | 577 | 334 |
| | 988 | 501 | 988 | 501 |
| Representing: | | | | |
| Non-cancellable operating leases | 988 | 501 | 988 | 501 |

Note 21. Employee entitlements

Employee entitlement liabilities

Provision for employee entitlements

| | | | | |
|--|-----|-----|-----|-----|
| Current (note 12) | 345 | 89 | 345 | 89 |
| Non-current (note 14) | 137 | 48 | 137 | 48 |
| Aggregate employee entitlements | 482 | 137 | 482 | 137 |

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: M McCaskill, P Murphy, M Staley, C Dorber, D Nelson, A Vizard and J Patten. All of these persons were also directors during the period ended 30 June 2001, except for D Nelson who was appointed on 11 March 2002.

Remuneration

Information on remuneration of directors is disclosed in note 18.

Directors' interests in contracts

During the year ended 30 June 2002 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 related parties

Aggregate amounts included in the determination of surplus from ordinary activities that resulted from transactions with each class of other related parties.

| | CONSOLIDATED | | PARENT ENTITY | |
|---|----------------|----------------|----------------|----------------|
| | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 |
| Net expenses to TWC Group and AWS | | | | |
| Controlled entities | 447 | 98 | 447 | 98 |
| Transfer of transitional funding from AWI to TWCH | | | | |
| Controlled entities | - | (8,408) | - | (8,408) |
| Payment to TWCH and TWC for delivery of services | | | | |
| Controlled entities | 3,386 | 3,504 | 3,386 | 3,504 |
| Aggregate amounts receivable from, and payable to, each class of other related parties at reporting date: | | | | |
| Current receivables | - | 56 | - | 56 |
| Current payables | - | 9,899 | - | 9,899 |

Note 23. Investment in controlled entities

| Name of entity | Country of incorporation | Class of shares | Equity holding | |
|--------------------------------|--------------------------|-----------------|----------------|------|
| | | | 2002 | 2001 |
| ShearExpress Pty Limited | Australia | Ordinary | 99.99% | - |
| Chain Shearing Limited | Australia | Ordinary | 99.99% | - |
| Woolshare Nominees Pty Limited | Australia | Ordinary | 100% | - |

On 4 April 2002 the parent entity acquired 99.99% of the equity and 70% of the voting rights of ShearExpress Pty Limited for \$500,000. At balance date the parent entity had contributed a further \$712,000. The parent entity is committed under contract to contribute a further \$2,688,000 to ShearExpress Pty Limited. At this point the entity has the option of a stop/go clause to contribute a further \$3,000,000 to the company. On 4 April 2002 the parent entity also acquired a controlling interest in Chain Shearing Limited, a controlled entity of ShearExpress Pty Limited.

Note 24. 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 25. Events occurring after reporting date

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

| | CONSOLIDATED | | PARENT ENTITY | |
|---|----------------|------------------------------------|----------------|------------------------------------|
| | 2002 \$'000 | 1/1/2001 to 30/6/2001 \$'000 | 2002 \$'000 | 1/1/2001 to 30/6/2001 \$'000 |
| Note 26. Reconciliation of surplus from ordinary activities to net cash inflow from operating activities | | | | |
| Surplus from ordinary activities | 30,177 | 21,593 | 30,177 | 21,593 |
| Depreciation and amortisation | 102 | 57 | 102 | 57 |
| Write-down of interest in properties held for resale | 6,088 | – | 6,088 | – |
| Loss on sale of non-current assets | – | 6 | – | 6 |
| Change in operating assets and liabilities | | | | |
| Decrease (increase) in trade debtors | 903 | (22) | 903 | (22) |
| Decrease (increase) in prepayments | (96) | 16 | (96) | 16 |
| (Increase) in other operating assets | (47) | – | (47) | – |
| Decrease (increase) in accrued wool levy | 3,396 | (3,944) | 3,396 | (3,944) |
| Increase (decrease) in trade creditors | (9,464) | 11,133 | (8,953) | 11,133 |
| Increase (decrease) in accrued government contribution | 7,850 | (4,979) | 7,850 | (4,979) |
| Increase (decrease) in provisions | 708 | (1,756) | 708 | (1,756) |
| Net cash inflow from operating activities | 39,617 | 22,104 | 39,617 | 22,104 |

Directors' Declaration 30 June 2002

The directors declare that the financial statements and notes set out on pages 43 to 62:

- (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 2002 and of their performance, as represented by the results of its operations and of their cash flows, for the financial period 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.



Maree McCaskill
Chairman



Col Dorber
Managing Director

29 August 2002
Sydney

Independent Audit Report to the shareholders of Australian Wool Innovation Limited

Audit opinion

In our opinion, the financial report, set out on pages 47 to 62:

- presents a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Australian Wool Innovation Limited and the Australian Wool Innovation Group (defined below) as at 30 June 2002 and of their performance for the year ended on that date; and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

Scope and summary of our role

THE FINANCIAL REPORT – RESPONSIBILITY AND CONTENT

The preparation of the financial report for the year ended 30 June 2002 is the responsibility of the directors of Australian Wool Innovation Limited. It includes the financial statements for Australian Wool Innovation (the company) and for the Australian Wool Innovation Limited (the Group), which incorporates Australian Wool Innovation and the entities it controlled during the year ended 30 June 2002.

THE AUDITOR'S ROLE AND WORK

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory reporting requirements in Australia, and the Corporations Regulations 2001, which is consistent with our understanding of the company's and the Group's financial position, and their performance as represented by the results of their operations and cash flows.

The procedures included:

- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence;
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report;
- obtaining written confirmation regarding material representations made to us in connection with the audit; and
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

INDEPENDENCE

As auditor, we are required to be independent of the Group and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the *Corporations Act 2001* and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Group. These services are disclosed in note 19 to the financial statements. In our opinion the provision of these services has not impaired our independence.



PricewaterhouseCoopers Chartered Accountants



W D McCluskey Partner

Sydney
29 August 2002

Corporate directory

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Geelong VIC 3220

Canberra Office

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