



ANNUAL REVIEW 2008/2009

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Company Profile

History

Objective measurement of wool started in Australia in the 1960's. The South African Wool Board (SAWB) kept itself abreast of the developments in Australia and in the late 1960's concluded that, in order to remain competitive with other wool producing countries, the South African wool clip must also be subjected to objective measurement. Objective measurement in South Africa commenced in 1971 under the guidance of the Technical Division of the SAWB.

For many years the testing operations remained in the hands of its Technical Division. However, the requirements of the International Wool Textile Organisation (IWTO) demanded that a Test House should operate as a completely independent organisation. This prompted the establishment of Wool Testing Bureau (Pty) Ltd (WTB). The Company was formed and registered on 26 June 1990 to operate independently under the ownership of the then "Wool Industry Development Trust". Its functions were to provide sampling and testing services to the South African wool industry, as well as the testing and research for purposes of certification of wool according to the requirements as laid down by IWTO, and other international specifications.

On 15 October 1990 WTB held its first Directors' meeting with its first board members being: Messrs. P W van Rooyen (Chairman); P E Kingwill (Vice-Chairman); O H G Beier; J L Lamont; D J Pape and A C Botes (Managing Director).

On 01 July 1993 WTB was converted from a private company to a Section 21 company. To this day it continues to operate in this form.

As a non-profit organisation all income and assets of the company must be applied solely towards the promotion of its main objective of researching and testing of wool on behalf of the wool industry.

Structure

The Board consists of six non-executive Directors who are appointed from various sectors of the wool industry, and one executive Director. The Directors are also Members of the Company. The Company's Articles provide that one third (or the number nearest to it) of its non-executive Directors must retire by rotation every year. The Directors so retiring will be the longest serving since their last election. All non-executive Directors are eligible for re-election.

The serving directors as at 30 June 2009 are:

Mr. D J Pape	(Chairman) (Wool Buyers Sector)
Mr. W A Heath	(Managing Director)
Mr. W Edmayr	(Wool Brokers Sector)
Mr. J A Kemp	(Wool Producers Sector)
Mr. B J Phillips	(Wool Producers Sector)
Mr. D C Slabber	(Independent)
Mr. C F Friskin	(Wool Processors/ Topmakers Sector)

The Company's management is under the control of the Managing Director who reports directly to the Board of Directors.

The management team as at 30 June 2009 consists of:

W A Heath	(Wian)	Managing Director
H J Gerber	(Hennie)	Financial Manager / Company Secretary
O E Wright	(Odette)	Operations Manager
J W Barkhuizen	(Johan)	Technical Manager

The company auditors are PricewaterhouseCoopers Inc.



Operational Review

Accreditation and Technical Performance

WTB is accredited to ISO/IEC 17025 by the South African National Accreditation System (SANAS - Lab No T020). SANAS is a recognised international organisation and has Mutual Recognition Agreements with a number of other international accreditation bodies such as the Chinese National Laboratory Accreditation (CNLA) China, International Accreditation New Zealand (IANZ) New Zealand and National Association of Testing Authorities (NATA) Australia. This overcomes international trade barriers and eliminates the need for international re-testing.

WTB is a member of Interwoollabs (IWL), whose aims are to develop co-operation between member laboratories to ensure the most correct and uniform application of IWTO test methods. The company participates in round trials twice a year.

The International Wool Textile Organisation (IWTO) is an international body representing the interests of the world's wool-textile trade and industry. WTB issues certificates in accordance with the requirements of the IWTO under Licence No. 05. Extensive operator training ensures the highest standards of proficiency in IWTO Test Methods and Regulations are maintained.

WTB is also a member of the Independent Laboratories Round Trials Group (ILRT), together with the Australian Wool Testing Authority Ltd (AWTA Ltd) Laboratories, New Zealand Wool Testing Authority Ltd (NZWTA Ltd) and Wool Testing Authority Europe Ltd (WTAE). The ILRT Group conducts two trials per week and the outcomes of the analysis are reported to each participating laboratory, as well as to IWTO meetings. Membership to the ILRT group provides unique benchmarking opportunities. Annual comparisons of operational productivity and technical proficiency enable WTB to review its performance against international standards.

Internal quality control procedures are in place to monitor technical performance on yield and fibre diameter measurements on an ongoing basis. The results are continuously reviewed to assess if corrective action is required.

Raw Wool Testing

WTB tests and certifies all greasy wool sold at auction in South Africa. The laboratory normally operates one eight-hour shift per day, five days per week. Service times, calculated from date of coring, vary from six days for normal tests to four days for fast and two days for express tests. The shift duration is extended into overtime during the season to accommodate peak demands and the additional workload associated with fast and express tests.

During the 2008/2009 season, the number of presale tests decreased by 3.7% to 76,814. The number of staple measurement tests increased by 8.0% to 34,001. The adoption rate (expressed as the number of Length & Strength tests as a proportion of Yield & Diameter tests) increased to 44.3%.

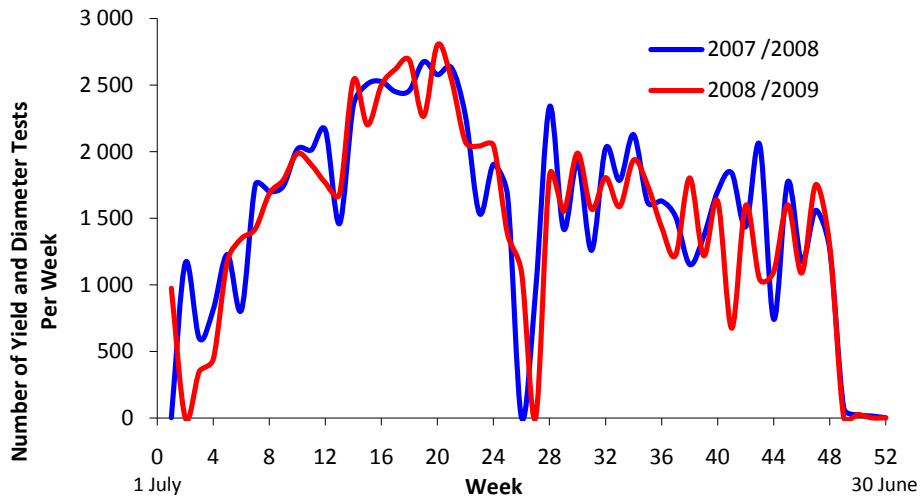
Testing Volumes

	2008/2009	2007/2008	Change
Yield and Diameter Tests	76 814	79 744	-3.7%
Staple Measurement	34 001	31 482	8.0%
Adoption Rate	44.3%	39.5%	

The testing workload received follows a similar seasonal pattern year on year. Daily capacity planning with load levelling to a weekly basis ensures optimal use of labour resources and timeous response to varying workloads.



Seasonal Workload Pattern



Sampling Operations

Sampling operations play an essential role in ensuring the accuracy and integrity of test results. WTB supervises twelve core and grab sampling lines at six broker-managed sites. All equipment is owned and maintained by WTB to ensure correct sampling and weighing of all bales. Supervision ensures that the sampling process is conducted strictly in accordance with IWTO Test Methods and Regulations.

During the 2008/2009 season a total of 313,006 bales were sampled. The average lot size remained fairly constant at 4 bales per lot while the average bale mass increased by 0.5 % to 152.2 kg.

Sampling Volumes

	2008/2009	2007/2008	Change
Total Bales	313 003	322 968	-3.1%
Ave Lot Size	4.07	4.05	0.5%
Average Bale Mass	152.2 kg	151.5 kg	0.5%

Grower Services

WTB offers a range of fleece testing services to growers, stud breeders and research institutions. The services include washing yield, fibre diameter measurements and staple measurements.

During the 2008/2009 season a total of 77,255 fleece tests were performed, compared to 73,461 during 2007/2008.

Disaster Recovery

WTB plays a key role in the marketing of the South African clip. Due to the total reliance of the local industry on this critical function, the Company maintains and regularly reviews a detailed Business Recovery Plan (BRP).

Business risks are reviewed regularly and actions taken to mitigate these as far as possible. Sporadic power failures are expected to continue as the ageing local distribution infrastructure is put under increasing pressure and supply reserve margins decline on a national level. To ensure operational continuity, the Company installed a standby diesel generator capable of supplying power to the entire facility. Short term re-scheduling of operations during periods of low workload is used to limit the fuel costs associated with the standby generator.

Critical operational areas are protected from fire and related perils by gaseous suppression and water sprinkler systems, which are serviced and tested on a regular basis.

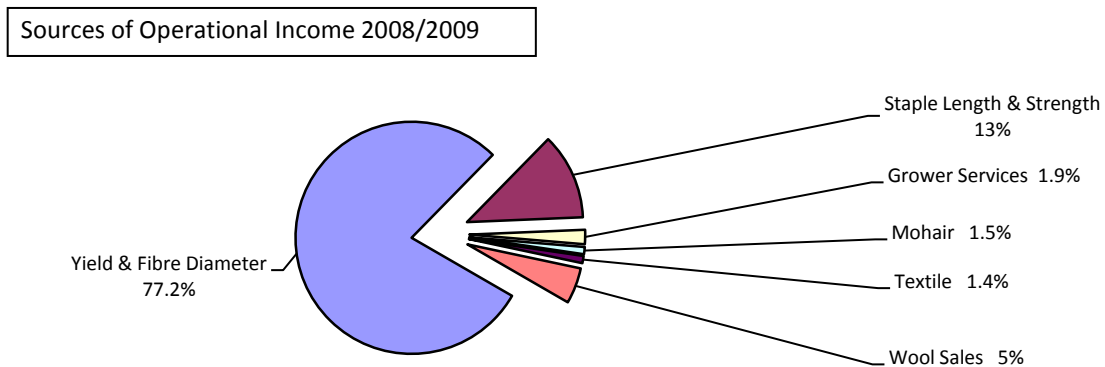


In the event of partial or total disaster occurring at WTB, the BRP can be implemented to continue the certification of South African wool, at no additional cost to clients. Sampling of bales would continue as normal under WTB supervision, while samples will be freighted to the designated AWTA Ltd laboratory after irradiation at port of entry. Test results provided by AWTA will be certified by WTB and transmitted to brokers.

The harmonisation of technical performance within ILRT ensures that the results the local industry receives will be consistent should the BRP have to be implemented. There will be delays in service time, which are an unavoidable result of freighting the samples to Australia. However, prior planning has been undertaken to minimise the impact of this on the South African industry as much as practical.

Financial Review

WTB operates as a financially independent company whereby operating expenses are funded by income generated from testing and research activities and the incidental sale of wool samples. Surplus amounts are held in reserves. The efficient management of reserves allows the company to service capital investment requirements while limiting the annual increase in testing charges. During the 2008/2009 season capital intensive equipment such as a third Near Infra-Red Spectrophotometer unit and further Laserscan was funded from reserves.



Capital Maintenance

As part of the strategic planning of the company, a rolling Five Year Plan is presented annually to the Board during the May budget meeting. The purpose of this document is to provide an outline of the Company's planned activities over the next five years. It includes aspects such as income and cost reviews, technical developments, information technology requirements, manpower requirements and capital expenditure.

The anticipated capital requirement for the 2008 to 2013 period is in the region of R 8.0 million, at current foreign exchange rates. This includes the following:

- Upgrade and improvement of sampling equipment
- Upgrade and improvement of laboratory equipment
- Investing in more modern equipment to obtain productivity benefits
- Planned upgrades to four ATLAS machines
- Upgrades to end-of-life computer hardware and software
- Software enhancements to improve productivity
- Maintenance and sampling vehicle replacement.

The Company's main source of income is derived from fees charged for testing and research activities. This is supplemented by the incidental sale of wool samples and other sources such as investment interest earned. Detailed financial planning is required to obtain the following objectives:

- Limiting annual fee increases
- Financing capital investment
- Maintaining the financial health and long term sustainability of the company



Productivity

The Company maintains a strong focus on the continuous improvement of productivity to control costs. Labour costs are a major contributor to operating expenses. Productivity gains are achieved through:

- Improvement of production systems
- Application of new technology
- Personnel training and development
- Measurement of work performance
- Strict control of all costs
- Adapting timeously to varying workloads.

During the year under review, testing productivity improved by 2.6%. This is calculated by comparing the number of tests completed and the time taken in the laboratory to perform the tests.

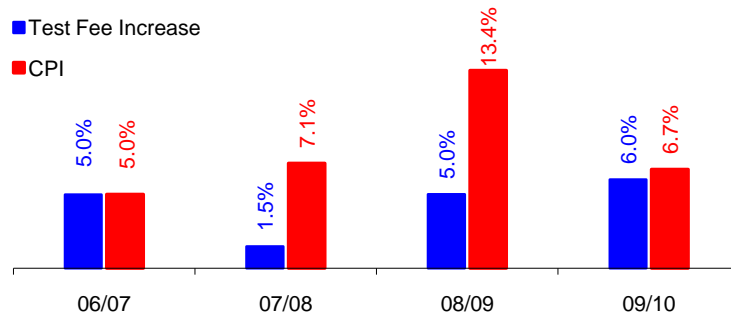
Testing Productivity

	2008/2009	2007/2008	Change
Laboratory Labour Index [Minutes]	26.0	26.7	-2.6%

The increased uptake of Staple Length and Strength tests necessitated the purchase of a fourth ATLAS machine. As a consequence, productivity in this area improved as the testing capacity was increased while labour time remained constant. Similar improvements were realised with the move of grower related fibre diameter testing (fleece tests) from the OFDA100 system to Laserscan at the start of the 2008/2009 season. Enhancements to the Fleece Testing computer system, with the introduction of bar-coding and direct data capture, have also contributed to overall productivity gains.

These improvements, combined with strict cost control, have enabled WTB to limit the fee increase for the 2009/2010 season to 6.0 % despite significant inflationary pressures. Final tariff increases are approved by the Board, based on budgeted income and expenditure. The Board members represent various industry stakeholders and always strive to keep fees to a minimum.

Test Fee Increases vs. Inflation



Outlook: 2009/ 2010

Yield and Micron testing volumes are expected to decline slightly during the 2009/2010 season, in line with the current trend. Adverse seasonal conditions, with droughts in some of the major wool producing areas, will put further pressure on local wool production. Wool prices are expected to improve as concerns about global wool production and supplies continue.

Inflation indicators are easing as a result of reduced spending on the back of the Global Economic Crisis. The Company is heavily depended on coal and electricity as part of the testing operations. Both of these commodities have seen significant increases in the past 18 months. The proposed electricity tariff increases for the next 36 months are a major concern. Should these increases materialise, it would put significant pressure on the Company's commitment to limit fee increases. A strong emphasis has been placed on improving energy efficiency in all areas of business to reduce the impact of escalating energy costs.



Summarised Balance Sheet

	Notes	2009 R	2008 R
ASSETS			
Non-current assets		22,626,721	19,712,133
Current Assets		17,121,539	13,445,267
Total Assets		39,748,260	33,157,400
EQUITY AND LIABILITIES			
Capital and reserves		37,148,183	30,828,113
Non-distributable retained earnings		24,447,672	19,838,534
Non-distributable revaluation reserve	1	7,759,740	6,503,812
Non-distributable asset replacement reserve	2	4,940,771	4,485,767
Non-current liabilities	3	1,405,374	1,263,427
Current liabilities		1,194,703	1,065,860
Total equity and liabilities		39,748,260	33,157,400

Notes

- Two yearly revaluation of own use property in terms of Accounting Standard AC123.
- The Company's plant and equipment were revalued in June 2008 to take into account changes to its expected useful life in terms of Accounting Standard AC 123.
- In accordance with Accounting Standard AC 116 the liability is determined by independent actuarial valuation.

Summarised Income Statement

	Notes	2009 R	2008 R
Revenue	1	17,671,105	16,969,341
Administrative and Operating expenses		(14,638,331)	(12,901,569)
Operating surplus		3,032,774	4,067,772
Finance income	2	1,420,040	1,102,158
Surplus for the year		4,452,814	5,169,930

Notes

- Revenue comprises levies received for testing and research in respect of wool samples, textiles and amounts arising from the incidental sale of wool samples, net of VAT, rebates and discounts.
- Finance Income comprises interest received on surplus funds invested prior to it being used for the Company's capital investment requirements.