

2003 AGM - Chairman's report

Transcript of 2003 AWI Annual General Meeting

Chairman's Report

Chairman:

I would also, before doing that, ask all present to remember that this meeting is being recorded and we would prefer not to record your mobile phone messages or anything else that happens on your mobile phones. So, could you please make sure that they are turned off or otherwise destroyed.

First of all, I would like to introduce the directors: Mr Brian van Rooyen, our deputy Chairman. Brian, if you would just stand? Dr Christopher Abell at this end; Dr Kevin Bell; Mr David Boyd; Mr Hugh Nivison; Mr Peter Sykes; our CEO, Dr Len Stephens; and the company secretary, Mr Les Targ. The Board recently appointed an additional company secretary and in-house legal counsel, Mr Chris Chapman, and I ask Chris to stand up so to identify himself.

Also on the front row is the company's auditor, Mr Doug McCluskey of PricewaterhouseCoopers, thank you. I would ask him to stand but he will be available later to answer questions at the appropriate time during the meeting. Also, Mr McCluskey is one of the company's legal advisors with Mr Derek La Ferla, who is partner of Deacons here in Perth. And sitting also in the front row is Mr Stephen Toomey, a partner of Toomey Pegg Drevikovsky who will be available to answer any questions that you may have on the amendments to the Constitution contemplated in motion 4.

The notice of meeting was sent to all the shareholders in the mail and I take it that the notice of meeting convening this meeting can be taken as read? Thank you. The minutes of the previous annual general meeting of shareholders of Australian Wool Innovation Ltd - which was the annual general meeting held at the Hay Services Club at 371 Murray Street, Hay, New South Wales on 31 October 2002 at 2.00pm - were approved by the Board and signed by the Chairman - that is me - in accordance with the provisions of the Corporations Act. The original minutes are tabled and there are copies of those minutes available for inspection, should any shareholder wish to see them.

I have made rulings on the appointment of proxies and I ask the company secretary to report to you on the proxies received.

Les Targ:

Mr Chairman, I report the number of proxy forms received at the registered office of the company or the share registry of the company, including those received by fax, by 2.00pm EST on Wednesday, 19 November was

3,429. The number of proxy forms received, after that time, was nil. The Chairman has ruled that, of those received by 2.00pm EST on Wednesday, 19 November, the number of valid proxy appointments is 14 and the number of invalid proxy appointments is nil.

The major reasons for invalidity of those proxy appointments was that the proxy form was either unsigned or the person making the appointment could not be found in the register of members. This company, not being a listed public company, is not obliged to disclose proxy votes in the minutes. The Board has indicated that the affairs of this company will be conducted in a transparent manner and, accordingly, the minutes of this meeting will record, in respect of each resolution in the notice of this meeting, the total number of proxy votes exercisable by all proxies validly appointed, the directions in the proxy forms and, if a resolution is decided on a poll, the total votes in favour, the total votes against and total abstentions.

I give you the following general information. Open proxies in favour of the Chairman average 65,000 per motion. Open proxies in favour of other proxy holders average about 4,000 per motion. The total number of votes available at this meeting on a show of hands is 53 and the total number of votes available at this meeting on a poll are 168,400. Thank you, Mr Chairman.

Chairman:

Thank you very much. So, in line with past practice of the company as with the last general meeting in Hay, New South Wales, this annual general meeting is being held on rotation in Perth and I would like to clarify several matters at the outset. First of all, the CEO and I will be happy to answer shareholders' questions, if they are relevant to the meeting agenda. However, in accordance with past practice and normal procedure at an AGM, please keep your questions until after the short presentation from myself and the CEO. For questions relating to the financial statements, could you please leave these until we deal with that item on the agenda, which will follow our presentations and those questions?

As this is the AGM of the shareholders of Australian Wool Innovation Ltd, and in accordance with past practice, only those shareholders holding yellow or blue cards can ask questions. So, to assist me in the conduct of the meeting, when you wish to ask a question, please proceed to the nearest microphone, of which there are four, and raise your coloured card and wait to be invited to ask your question. Shareholders entitled to ask questions and make statements are asked to keep their contributions concise and relevant to the motion under discussion. But, in any event, unless there is an objection I would to limit each speaker's time to around about two minutes.

In my capacity as Chairman, I have decided in accordance with the constitution of the company that a poll will be taken on each motion. I have decided that all motions will be decided by a poll because you have a new board and we wish to ascertain the real views of the shareholders and we want - at least at this meeting - to be seen to be running a completely open voting procedure.

I want to inform you that I will be voting all the open proxies directed to me in favour of each of the five resolutions before this AGM and, at this point, I would like to introduce Mr Leigh Bull from ASX Perpetual Registrars Ltd, who be acting as the returning officer for the purposes of the polls to be conducted. Mr Bull will run through the voting procedure after discussion on all the motions has been completed. The voting on all motions will be conducted at that point.

I can't see Mr Bull but as I have already indicated, there are voting instructions on the back of the yellow card which is titled "Shareholder/Proxy Holder Admission and Voting Card" but more importantly, beneath those instructions is the actual voting paper to be used for the poll. For convenience, as there is only one voting card covering all five motions to be put to this meeting, you will not be directed to hand in your completed voting card until after all the motions have been debated and considered.

I would now like to present my report. This will be followed by Dr Stephens' report. I will take questions after my report on the general subjects to do with things that should be addressed to me. Dr Stephens will then deliver his and we will take questions after that and, separate from that, when I start the formal part of the meeting he will then field questions on the financial statements and the annual report.

So, ladies and gentlemen, the reason why I am standing before you today is that 12 months ago, you radically changed the Board of AWI - Australian Wool Innovation. And you therefore gave my Board the most important job of addressing the shortcomings in corporate governance that have become apparent in the company. Not only have we done what you so obviously demanded but we have instigated change towards open and transparent communications, as I hope you agree our annual report quite clearly demonstrates. And this, of course, is nothing else but above all the Board's responsibility and so we have placed an extremely and experienced Chief Executive Officer, Dr Len Stephens - who will speak to you in a minute - in charge of managing the company and the changes that you required then and managing the future of AWI.

As a consequence of these changes, we are now able to devote much more - in fact, in future, all of our management time, effort and resources - to getting on with what our business is all about. That is, namely, planning and research, the carrying out of development and the chasing of innovation for the shareholders of AWI and for the Australian wool industry in general.

I think the fact that today's election of directors has not been contested is pretty clear proof that the ship has become more stable than it was some time before. Solid foundations have been built in this past year and, as well, you might say that the support that's been democratically shown - for those who did so - for your Board's preferred Woolpoll position of two per cent would provide to me further confirmation that we are on the right track.

Interestingly, the oft heard criticism that woolgrowers don't take much part in decisions affecting them has been somewhat overturned by that vote because the figures showed that 37% of voters, who were representing 54%

of the eligible vote, took part in the exercise, which is a very good showing. And as well, 57% of the first preference votes were for 2% and I think you can say that the support's even more significant in a way because so many woolgrowers are still coming out of - in the eastern region anyway - the worst drought that I can certainly remember and I think most people can remember, and some people aren't out of it yet.

So, I think that this whole Woolpoll voting arrangement shows a maturity and a confidence in research and development in this industry, which is so vital in this area of major competition. And you may as well as say, "If we're not going to do it, who will?" And I think it will serve us and our industry extremely well. Nevertheless, I must sound the cautionary note regarding the funds that the 2% levy will produce and it's obvious that it's always a guess as to what volume of wool will be sold any time let alone post-drought and at what price. And the recent big rise in the dollar has added further to this uncertainty.

And bearing this in mind, while AWI had budgeted \$85 million for expenditure in this next year, we have so far committed only \$40 million in this financial year and we are monitoring our position month-by-month with nothing less than an eagle eye, I can assure you. In fact, yesterday at our board meeting, we revised our forecast in the light of the lessening income that is obvious and we have cut our expenditure forecast from the budgeted figure I gave you just now, so we've cut it substantially. And Len Stephens will expand on that information when he comes up on to the podium.

But it's clear that, of course, taking all these things into account, that the reason why woolgrowers agreed to again support a two per cent levy has everything to do with cautious behaviour but it also has everything to do with our research and development projects and you have heard quite a lot about those this morning with a great deal of interest. But despite the youth of the company, AWI has managed to deliver some fascinating research results this year, as many of you would have seen this morning, as I said.

Some of the highlights are as follows. We have had two new legume pastures, that's Izmir and Coolamon and they have become commercially available. The machine washable men's suits are now on sale in David Jones stores around the country. The pain-free mulesing alternative - which is extremely interesting, I think - is progressing to field-testing. I did notice this morning that somebody might make the mistake of running their hands through their hair, and it looked to me as though they've got to be very careful not to do that with this new chemical for mulesing or you might finish up like most of us.

There is a non-woven wool process, which is proving a great commercial success and we have seen the process in some detail. I think we're just starting a very exciting phase in this non-woven woollen process with what you might call after-stitching or after-finishing prospects that are extremely exciting. And we have also got - as everybody or most of you know - a national approach to the on-farm adoption of research and we have embarked - as, again, you heard this morning - on an extremely broad based exciting sheep genetic programme in

conjunction with the MLA and I personally have been extraordinarily enthusiastic about this, I have to say. I think we have been behind on this matter in the merino sheep industry at least for a long time.

So overall, our portfolio of projects is extremely strong and don't forget they're all - or not all but nearly all - young projects and so therefore, a lot of the excitement of the results will be in the future. I must say, however, there are some areas of research - again, you heard a bit about it this morning - which gives a degree of concern and, in particular, Shear Express. And despite a very substantial investment of over six million dollars and an original target cost of \$450,000 per unit, the first of these has cost \$1.2 million and the return to investment implications are obvious.

The reality is that this programme is months behind schedule and well over budget and it has been for all of this year and it was before it left Western Australia. I can assure you, however, that we are hoping for a positive result from the completion of these trials and many people are working very hard to make it so. Again, as you heard this morning, in line with the Board's policy of contestability in recognising that there may be a large number of woolgrowers to whom Shear Express may not be relevant, however successful, we are now examining other options. We have commenced a search for further novel shearing innovations and they are innovations that might be brought forward to a point where they also could be tested against the current system and/or Shear Express if it has some success.

I referred to the problems of the past and that's the circumstances that led to a Senate inquiry into aspect of past AWI operations. As I said, at the last AGM, the shareholders voted to install directors of your own choice and this new Board was elected on the understanding that we recognise the absolute necessity for corporate governance and that there had been deficiencies in the past. Governance starts with the shareholders. It's your prerogative as shareholders to appoint the Board; in fact, it's your job to appoint only directors that will make sure that your company is run in an ethical way. You did that and I don't resile from saying that together we have fixed the problem. All of us should be pleased with the journey we have made.

That brings me back to the Senate inquiry. It's possible that the Senate inquiry, when it comes out - and it was coming out six weeks ago and then it was coming out four weeks ago and then it was coming out two weeks ago and it was coming out last week and next Monday but now it's actually back to simply coming out, I think - but when it comes out, it will make certain suggestions. And it would be a pity if one of those suggestions was for more government control of your company. We all think that avenue should be strongly resisted because you as shareholders, by changing the Board, you found there was a problem nearly a year ago, which is a year before the Senate will bring down its findings. And this patently will tell you that the shareholders answered the question as to whether or not changes should be made 12 months or so before the government could. We can wind that forward a bit faster.

So, there's no possibility that government involvement in our view would streamline, hasten or improve such processes within the structure of AWI and, in this context, the shareholders should be very grateful to Dr Andrew Vizard who resigned last year well before the annual general meeting and voiced his concern in public about his worries with AWI. Now, that's a rare event for directors - not to resign but to voice their concern - and that was the event that precipitated the shareholders taking control of the company.

So, let me now just briefly turn to the AWI Constitution. One of the first things the Board did upon election was to address some important changes to the AWI constitution. You received the essential elements of those changes in the agenda papers and you will be voting on this matter today. All in all, we have initiated these amendments to reflect the more open and transparent organisation. And I'd like to just acknowledge the excellent co-operation we have had from WoolProducers and farm organisations in developing these recommended changes and I'm pleased that almost unanimously they support them.

I should particularly mention NSW Farmers Association because they made a myriad of sensible suggestions in a quite long submission they made to us very early on in the piece when we were looking at the Constitution. And I think the example of a good change, and this is one of the best examples, is the 100 nominations per potential director that we introduced to this year's election which has opened up the election quite radically and it seems to us to be a fair call.

I would like to extend our acknowledgement to farm organisations and their co-operation a little further. This year, AWI conducted a number of working forums in Western Australia and New South Wales. In Victoria, we attended WoolPoll meetings in all wool-growing states and I just take this opportunity to thank John Keniry and his conscientious panel for the excellent job they did on WoolPoll. Wherever we went, we received detailed suggestions from shareholders. Some of the suggestions, I have to say, were completely opposite to the one we had heard 2½ minutes before but, nevertheless, all of those suggestions were taken into account, and we formed a general view from those meetings as to how to progress forward in AWI and they have been invaluable to the company. And, by extension, they have been invaluable to all of you as shareholders.

They are also being incorporated into our strategic plan which leads me to say that, in fulfilling all of these duties in the last 12 months - strategic planning, the WoolPoll, the review of performance required for the WoolPoll and the unexpected demands of the Senate inquiry and the midyear review and correcting corporate behavioural problems - we have had a very full year. And the Board is conscious of the extra and onerous responsibilities that have fallen on the staff and we are conscious also that these and other formalities have had the potential to distract AWI from the business of delivering research and development to its shareholders.

Despite this workload, the Board is proud of the fact that, for the first time here, you know your voting entitlement for this AGM. It's been no small achievement. AWI's share registrar is very complex. It's one of the few shareholder registrars - if you think about the rolling levy - anywhere in the world where votes for every

shareholder will change somewhat every year. And in order to record your levies and translate these voting entitlements, all sale figures must be passed from the brokers to AFFA, then from AFFA to ASX Perpetual and then, finally, to AWI.

Some woolgrowers have four ABN numbers; actually, some have more. Some brokers don't put the farmer's name and address on the notification to the department. I described the registrar elsewhere when we took over as being a shambles and that was an understatement. Last year, nobody knew how many votes they had. All the voting entitlements were one year out of date. Some were at least one, some were two years out of date and we've had two staff members working on repairing that register. And they have done very well to the point where we have less than 1% of all the shareholders who had to enquire regarding their voting entitlements and this will get less as we tighten this thing up.

I would like to just briefly talk about our international markets for wool. While Europe - particularly Italy - continue to be very important and consistent markets for Australian woolgrowers, China now takes forty per cent of Australia's wool exports and in recognition of this, we at AWI have opened an office in Beijing this year. We obviously regard our continuing liaison and work in China as absolutely vital to our future and, of course, we regard our relationship with the International Wool Textile Organisation as equally important. And so, we are looking forward to working with IWTO to improve our contact with wool processors across the globe and to help increase the demand and appreciation for wool.

We regard this aspect of our business as so important that we are appointing a new general manager responsible for trade and development and his or her role will be to drive our work in this fundamental area and whose emphasis will most certainly be on China. This general manager will be helping us with the drive to get our innovations to the market and so we continue to invest in market development, new product development and the development of innovation and in driving the delivery of these things to these markets as hard as we possibly can.

We do market development, if you like, this linking of these developments as a result of our research to the decision makers in the trade as the very soul of our work. If we fail to get the results to the market and to the decision makers, much of your money will have been wasted. I make these points but I add that, whilst it can do these things, AWI does not and cannot under its statutory funding agreement with the federal government provide money for generic promotion. It's forbidden and there is no market failure in wool promotion.

Wool is being promoted all over the world under a myriad of different brand names. The difficulty is to get the decision makers to use it. However, I am just saying that if there is to a debate about the promotion, this meeting is certainly not the forum for it but nevertheless, no doubt there will be a general debate about promotion in this country and, in fact, it started some time ago.

Let me just briefly talk about AWI's involvement in the recent Cormo Express incident and now we've got another one just about as bad, maybe worse. AWI has clear authority to provide services to woolgrowers in the area of animal health and welfare and a submission was presented by us to John Keniry's livestock export review - a different review - which outlines the AWI concern regarding the indirect risks to the wool industry and the live sheep trade's present structure. Your Board believes that the potential return to Australia of those sheep or any sheep for that matter is not an option. This dreadful undermining of so many successful years of quarantine arrangements - which could have happened and maybe was about to happen - alerted us to the fact that a fallback position must be immediately found for any future case.

In conclusion, while this has been an extremely challenging year for AWI, your Board has not been deflected from its primary goal and its responsibility of trying its hardest to deliver the best returns on shareholders' levies. With correct corporate governance strategies now in place and with strong management and dedicated staff, AWI has settled down to a sustained programme of research and development to do what you asked us to do.

Finally, your Board would like to record its appreciation for the shareholders' support throughout the year and I would like to recognise the important contribution that your vote for change made to AWI last year. So, in finishing, I will just repeat it again, without shareholder commitment to good corporate governance, this company would not be able to reinvent itself as a company. And with the shareholders in mind, your Board will continue to provide you with the highest standards of corporate governance and that is to make sure that this levy works for us and for our industry.

Thank you very much indeed, ladies and gentlemen. I now invite your questions and comments. Those people with yellow or blue cards - everybody has to have a coloured card these days - can ask some questions or make some comments at this point. Could you please proceed to the microphone nearest to you and when I give you the signal to proceed, please hold up your card and then direct your question or comment to me as Chairman? It is essential that everybody hears your question or comment. Could you please firstly identify yourself by name? You know all this but, nevertheless, if you would do that I'd be extremely grateful.

Yes, sir, on number two?

Question from floor:

Don Hamblyn, shareholder from New South Wales. In a project listed New South Wales agricultural review, expenditure of \$70,000 was listed for the project. I have a number of questions. Did the project produce any measurable outcome? Has a report of this review been provided to the present Board of AWI and the current Minister for Agriculture New South Wales and will it be made available to woolgrowers? Did the project have in place key performance indicators and, if so, did the project meet those performance criteria? What measures has the current Board and management put in place to assure woolgrowers that projects that review R&D and extension services of state departments of agriculture provide on the ground benefits to woolgrowers? Thank you.

Chairman:

Thanks, Don. Well, the answer to your question is that the report has not been presented to the Board or to the Minister because, after the first draft of it was completed, the management of and priorities of AWI and of NSW Agriculture were changed.

I can inform you that Len Stephens and I met with Richard Sheldrake who is the Director General of NSW Agriculture and Helen Scott-Orr about two and a half months ago and at that meeting, it was agreed that the report - which as I said, is still in draft and requires some rewriting - should go ahead. And I can only assume that we will make sure that New South Wales farmers are consulted in that redraft, which overcomes some of your other questions because I can't answer the questions until such time as the report is completed, okay?

Number three, is somebody there?

Question from floor:

Robert Peitsch, woolgrower from Queensland. The question I'd like to ask, Chairman, is in regard to what was in your address in regards to the lowering wool production that we're seeing continue over a period of time. Before I ask the question, firstly I'd just to acknowledge, I think from the whole industry's perspective, the real nuts and bolts way in which your Board has actually taken on industry matters and especially the last one you related to in regards to animal health. I believe a lot of people don't realise the importance of animal health to Australian woolgrowers and it's very pleasing to see that the AWI Board has seen that as a priority listing and has actually really put all their efforts to make sure that throughout the production of the wool cycle, animal health issues are being addressed. So, I think we thank you for that.

But the question is, in regards to the amount of levy being received, contained in the WoolPoll information sent to woolgrowers, there was an estimate of revenue raised under the 2% wool levy option of approximately \$52 million. To achieve this, production was estimated at approximately 470 million kilos and at an EMI at about 950 cents.

With wool production falling, now estimated at 440 and falling for the 2003/2004 year and an eastern market indicator now trading at 807 - that was at 30 October 2003 - does AWI intend putting in place measures to tailor project programs expenditure to income? If so, what areas of the current strategic plan 2003/2008 does the Board intend to cut or reduce? While AWI had signalled a rundown in reserves, will this rundown be greater in the life of the strategic plan than originally projected?

Chairman:

That's not one question. Let me just have a go at it. First of all, thank you for the remarks you made at the beginning. We will try and keep honouring those for as long as we are on the Board.

In regard to the lessening income, it's patently obvious that we have lesser production. We have been trying to measure that with the forecasting committees progressively through the year. There have been four or five goes at that but, as well, we have now had an immeasurable amazing rise in the value of the dollar vis-à-vis the US dollar. We will always trade in US dollars and so we have got a wool price problem as well.

So, when you multiply those two together, your conclusion that we've got an ever-decreasing levy at the moment, even at 2%, is quite right. And, as I said in my speech, we've been keeping an eagle eye on exactly how that will affect us. The estimates that were calculated during WoolPoll - which, you will remember, were put together several months ago for the document to go out - said that the levies would be at 2%, estimated to be \$52 million plus \$14 million from the government and \$4 million interest on investments which, in rough, will be a total of \$70 million.

At the board meeting yesterday, we revised our estimates forecasts and those figures that I've just given you this year we believe will only amount to \$60 million, so we have to tailor our investments to suit that lessening of income. In what areas will we lessen them? If you look at the WoolPoll figures, the WoolPoll form that went out, we gave you certain things we would do at 3%, certain things we would do at 2% and certain things we would do at 1.5%, which obviously anticipated a lowering of levy income for AWI and that 1.5% formula is what we're going to have to follow. We will be lessening our expenditure in those areas, but can I just reiterate that this thing is almost a day-by-day re-evaluation as we go through this year.

I'm not sure that - although I'm sure that many people do in this room - I really understand the final sort of result I suppose, if you like, of the long term effect of the drought in eastern Australia, but it is absolutely prodigious. And when you start analysing the females that were not born in the last two and 2½ years, you finish up with a spiral of wool production that goes like that and takes a long time to level out and come up again. Thank you, Robert.

Who's number one?

Thank you.

Comment from the floor:

Mr Chairman, I'd like to congratulate you and the Board on the wonderful job you've gone.

Chairman:

George, is it?

Question from floor:

George Ward, New South Wales, I'm sorry. George Ward, New South Wales. Mr Chairman, I'd like to congratulate you and the Board on the wonderful job you have done this year.

Now, you have opened an office in China during this year. Now, in view of the emerging capacity of India as a processor, is there any chance of the Board opening an office in the near future in India to promote the processing of wool?

Chairman:

Yes, thank you for the question, George. The answer at the moment is no but, as I said during my speech, we've got this new trade development officer who will have responsibility for the world, the globe, and although we're looking at varying that slightly, mainly you would have to say his responsibilities should be for China. You're absolutely right about India and we will be making sure that all potential markets are looked at by this new appointment.

I don't know that I can say much more than that. It sounds pretty general but we recognise what the future might be in India. It is certainly a developing wool market and there's no reason to think that it may not go along the same sort of track - only behind - as China.

Comment from the floor:

I feel we shouldn't put our eggs all in the one basket. China, if they have a monopoly, which might be in the future, they will use it against us. Thank you.

Chairman:

Okay. Yes, Barry?

Question from the floor:

Yes, Barry Court, number 2028. I was told to quote my number but look, Mr McLachlan, thanks very much for taking on the position as Chairman. We really appreciate it in Western Australia, and for the Board, for the job you're doing. The point has been made twice now this morning, and just very recently there, about the wool prices not looking too brilliant at the moment. Wool production is certainly down, the Australian dollar indicating to go up, and here we are now taking a fairly big knock with sheep prices.

So, the work you do in the industry right through to the shearing - we've seen the work you do there - it's vital that the sheep prices do stay up. It's a part of the industry. We have a major crisis at the moment in Victoria, which could flow through the industry so will Wool Innovation be helping us? We have a meeting here on Monday with all the trade regarding these live exports and we wondered what support we can get from Wool Innovation.

Chairman:

Yes. Well, Barry, the situation is Australian Wool Innovation - which you might think is simply a wool research and development company - has responsibility for health. It can relate to and converse with and deal with government directly or a department. So, to answer your question as to whether we're involved, we are involved. For example,

in this last issue, we have been talking to the department people this morning about - as there are groups of us and, as you know very well - to try and see what can be done.

And we have some resources, which doesn't mean to say we're just going to converse. We do have some resources. I'm not sure what form those resources would take but my absolute certain bet is that there will be legal advice requirements and all sorts of things, especially in regard to this latest event. Now, I don't think I answered all your questions.

Comment from the floor:

You should be the chairman of the Australian Fighting Fund too.

Chairman:

Oh, well. This is a different meeting. You know the way the thing works in the Fighting Fund. Recommendations for the Fighting Fund have to go through the NFF executive, and I can only advise you off the record that that's the way you want to go if you want to have some success.

Have we got any more questions? No more questions? Okay. I would now to invite our Chief Executive Officer of AWI, Dr Len Stephens, to address the meeting.