

**AUSTRALIAN WOOL INNOVATION
ANNUAL GENERAL MEETING
14 NOVEMBER 2006**

IAN McLACHLAN: Ladies and gentlemen, welcome to the fifth annual general meeting of shareholders of Australian Wool Innovation. It is past the appointed time of 2 o'clock and as Chairman I declare a quorum is present and this annual general meeting open. I request that everyone present register their attendance with Link Market Services, with the staff outside the entrance door. If you have not yet registered would you now please do so. As is the usual practice at the company's annual general meeting, those procedures are being sound and video recorded. I ask for your cooperation and request that you turn off your mobile phones for the duration of this meeting.

Before I commence I would especially like to welcome the following people for being here today; Barry Walker who is the chairman of AWS; and Richard Wakelin from Meat & Wool New Zealand, so welcome to you both.

In line with the past practice of the company, as the last annual general meeting was held in South Australia, this AGM is being held on rotation in New South Wales. My name is Ian McLachlan, I have been elected by your Board to be the Chairman of the company and I would like to introduce you to the elected directors of AWI, who are seated on the stage with me. The first of those is deputy chairman, Mr Brian van Rooyen, and, secondly, Dr Chris Abell. Thirdly, Dr Kevin Bell. Fourthly, Mr Walter Merriman. Fifthly, Mr Hugh Nivison and Mr Peter Sykes, who is down on the right-hand end. Sitting on my left is our CEO, Dr Len Stephens. Seated at the table to the left are our company secretaries, Les Targ and Chris Chapman. Chris Chapman is also the company's in-house legal counsel and with them at the table is the company's external auditor, Peter Bucholz of PricewaterhouseCoopers who will be available to answer questions at the appropriate time during the meeting. Also attending is the company's external legal adviser, David Somerville, who is second from the left, a partner from Blake Dawson Waldron.

The notice of meeting was sent to all shareholders and will be taken as read. The minutes of the previous annual general meeting of Australian Wool Innovation Limited, which was the annual general meeting held at The Shores Function Complex on the corner of Hamra and Military Roads, West Beach, South Australia on Wednesday, 9 November 2005, which was commenced at 2pm, were approved by the Board and signed by me as the Chairman in accordance with the provisions of the Corporations Act. The original minutes are tabled by the company secretaries and there are copies of those minutes available for inspections should any shareholder wish to see them.

I now ask Mr Leigh Bull of Link Market Services to report to you on the proxies received.

LEIGH BULL: Thank you, Chairman. I can report that the number of proxy forms received in the registered office of the company and our share registry, including those received online and by fax by 2pm Australian Eastern Standard time on Sunday, 12 November, is 4124. The number of proxy forms received after that time was 165. Of the proxies received by 2pm on 12 November the number of valid proxy forms was 4101, thereby leaving invalid proxy forms of 23. The major reason for these invalid proxy forms is that they were not signed. Those proxy forms that have been received after 2pm on 12 November have been ruled invalid as under the constitution of the company they were received too late. Thank you, Chairman.

IAN McLACHLAN: Thank you, Leigh. At this early stage in the meeting I would like to clarify several matters. Dr Stephens, the CEO, and I will be happy to answer shareholder questions without notice and if they are relevant to the meeting agenda. In accordance with the past practice and normal procedure at a public company AGM please keep those questions regarding the financial reports of the company until after Len Stephens, our CEO, has made his presentation. I would ask that any other questions without notice that are relevant to any other item of the meeting agenda be put during the discussion of that item.

As this is the AGM of the shareholders of Australian Wool Innovation Limited, and in accordance with past practice, only those shareholders holding yellow or green cards can ask questions, so to assist me please, in the conduct of this meeting, when you wish to ask a question please proceed to the microphone, show your coloured card to the AWI officer at the microphone and wait to be invited to ask your question.

The shareholders are entitled to ask questions and make statements but I would ask that you keep those contributions concise and relevant to the motion under discussion. Unless there is an objection, I would like to limit each speaker's time to a maximum of two minutes. If a shareholder wishes to raise a point of order, as to any matter during the meeting, please proceed to the microphone nearest to you, show your coloured card to the AWI officer at the microphone and wait to be invited to raise your point. After I acknowledge you please clearly state your name and make your point of order. If a point of order is made while another shareholder has the floor I will ask that shareholder to resume his seat, or her seat, until the point of order has been dealt with. Any question then under consideration will be suspended until I have made a determination on the point.

In accordance with Rule 11.5 of the company's constitution I, as Chairman, have the power to make a final ruling on any point of order raised by a shareholder. Under Rule 11.1 of the company's constitution no person may move, at any meeting, a resolution or an amendment to a resolution that is not in the notice of meeting except with the approval of the Board or if the Chairman permits it or it is required under the Corporations Law, so I ask that this rule be noted by all the shareholders.

In regard to the voting procedure and poll, only those shareholders and proxyholders holding a yellow voting card can vote at this meeting. Although five candidates are standing for election to the office of director there are only three positions available, therefore in accordance with Rule 7 of the rules and procedures for the election of directors published in accordance with Rule 13.3(e) of the AWI constitution, I will be calling for a poll for each of the motions.

As a poll will be called on each motion I advise you that the voting instructions for proxyholders and shareholders are on the front of the yellow voting card - these instructions will be read out by the returning officer at the appropriate time. I will not direct you to hand in your completed voting card until after the five motions have been considered and debated. Before I move on, we asked shareholders for any questions relating to the company's activities. We did ask them for that beforehand. We asked you all for that beforehand and AWI received 79 questions, the main focus being on marketing, the integration of AWI and AWS and mulesing.

In my presentation and in Len Stephens' presentation we will try and cover as many of the issues as were raised as possible and Len will address some of the specific questions raised by the shareholders after his presentation. AWI will also reply to each of the questions after the AGM.

We will just have a short video, some of which you have seen this morning, but I think this is a slightly more complete video and I think that will interest you before I make my Chairman's address.

VIDEOTAPE SHOWN

IAN McLACHLAN: Ladies and Gentlemen, it is our job to enhance your returns from wool and, as you can see from that video presentation, this, in the main, involves building demand for Australian Merino wool, so I would like to thank those people who have come and helped us put all this together. If I can say one thing, you cannot possibly coerce any of those people to say what they said if they didn't believe it, so it is really nice to have that new feel about it.

We are in a very competitive fibre market; and AWI and the Australian woolgrowers, need to be very smart about taking on this competition. From the genetics of the sheep in the paddock to the swing ticket on the finished woollen garment, AWI is about clever innovation.

On-farm we are striving to give you, the woolgrower, increased productivity by enabling you to grow your wool at a lesser cost.

Off-farm we are delivering textile innovations to targeted designers, to targeted manufacturers and retailers, backed by a supply chain guarantee of quality Australian Merino wool and this will inflict pressure onto the pipeline to increase demand for your product.

Over the past two years, in consultation with WoolProducers and others in the industry, we have shifted our spending away somewhat from the on-farm portfolio towards the post-farm work.

For this financial year, the balance of expenditure is about 40 per cent on-farm and 60 per cent off-farm. I think we have got the balance right and plan to keep this funding split for the foreseeable future and, what is more, the majority of growers seem to agree, as you will see in a minute.

Our priority areas for on-farm research will be sheep genetics, wool harvesting, pasture productivity and sustainable production systems from high rainfall through to the pastoral regions of the whole country.

ACIL Tasman's review of our performance, which they are required to do in WoolPoll years, or not "they" but somebody is required to review our performance in WoolPoll years, which came out earlier this year, found that the \$97 million we have invested into on-farm research in the past three years has delivered \$417 million in benefits to growers.

At the forum this morning you saw we are working hard as possible to deliver alternatives to surgical mulesing and new shearing technologies. While I am on this subject let me say that the Board's policy is that it will deliver acceptable mulesing alternatives to the industry by 2010 and, if you like, we will deliver that result to the retailers of the world, as they are very much relying on us to do so.

As well as this, to ensure Australian woolgrowers get the most from the levy funds they invest with AWI, we have formed commercial relationships with other organisations on various programs and this is about using our funds with partners for a bigger return. As most of you know, AWI collaborates both financially and intellectually with research bodies such as CSIRO, government departments of agriculture and other R&D organisations, to make your dollars get bigger and better returns. In particular, we have invested over \$35 million over five years in projects run in collaboration with Meat and Livestock Australia and other rural research and development corporations.

With co-investment from MLA and those other organisations, the total investment in these projects has been increased to almost \$90 million over five years. That is \$3 for every \$1 invested by AWI. These projects are delivering results for woolgrowers in the areas of molecular genetics, weed control, animal health and welfare and, of course, natural resource management. We have absolutely no alternative but to make your funds work as hard as possible.

Now let me turn to the area that you saw a lot of this morning, and that is the off-farm or post-farm area, and to talk about why it is such a crucial part of the AWI strategy. All of us in the Australian Merino industry are involved in the global textile trade. It is tough game to be in, with constant price and technology competition from synthetics and other natural fibres. Wool is an expensive, luxury fibre - 21 micron wool is up and down but around five times the cost of cotton and three times the cost of synthetic fibres. Our competitors continue to innovate, often mimicking some of the qualities of wool.

We have seen synthetics develop, for example, active moisture management properties, including super-absorbent plastics derived from plant products, which are capable of absorbing many times their own weight in water. We have seen them develop active thermal management properties, so that your clothes will adjust to the temperature outside. This includes phase change materials embedded within acrylic, for example.

To hold our price up and to maintain our position in the apparel market, we need to beat them on product innovation. We need to beat them on customer relationships and we need to bring to life the natural qualities of Australian Merino. This really encapsulates why a collective which you are all part of, called AWI, and why its R&D and its customer relations are so vitally important.

AWI is providing technology, ideas and support to companies who are leaders in their markets, again as you saw this morning for those of you who were there, and they are leaders in their markets, so those partners can take those innovations to their customers. An absolutely key part of our strategy is these direct business relationships. We have joint ventures with more than 50 textile companies and retailers in key markets around the world and there will be more coming because the contacts we have had in previous months have shown a great deal of interest from others who are not already joined with us. You already heard from some of them this morning.

We now show retailers innovative Merino products, at the right time, coupled with a business relationship strategy that is simple and speaks to the retailers in a language they understand.

As I think you heard Jimmy Jackson say this morning, after the retailer seminars in Hong Kong several weeks ago, "When we say what we are offering, they understand it straight away." That one-to-one direct relationship is understood straightaway.

Ladies and gentlemen, I am not talking about a relationship with a firm where between us we might deliver tens of thousands of garments, I am talking about relationships with firms that either deliver millions of garments or have the effect on other people, a trickle effect on other people, so that in the end millions of garments can be put through those outlets. That is because to change the demand for Australian Merino wool we need to put through these sorts of volumes and, if we don't think in these volumes, we will not move the demand curve for Australian Merino wool and deliver results for our shareholders.

An example of this is our partnership with Driza-Bone. You have heard a bit about it this morning. We have been working with them to create the second-generation range of outdoor active apparel. Made from 100 per cent Australian Merino wool, Driza-Bone's second generation has been presented to distributors in France, Switzerland, Denmark and Germany; and will be in retail outlets for the next European winter.

Those business partners get a competitive advantage by working with Australian Wool Innovation. The smarts we call them - somebody will think up a better name - but the smarts that we provide are provided on to consumers in finished garments under globally known apparel brands. While the positioning varies from market to market, we are doing business with companies that position Australian Merino wool as a premium fabric. It is not enough to grow global demand for wool, it is about differentiating our premium product; and increasing returns to our shareholders.

Our partners want to capture the values of Australian Merino wool for their customers, and they need to know that it is Australian Merino. They have been telling us that this is a competitive advantage to them. So to help them do that, we have developed with AWTA the Verification of Australian Merino, or VAM, scheme, which you heard about again this morning. It is an entirely new approach for the Australian Merino industry. VAM, Verification of Australian Merino, matches up the test certificates and specification certificates, as Pascal explained this morning, right through the chain of production of the particular items. It is not an expensive process, but it does give comfort to the manufacturers and to the retailers and gives them just a little bit of an edge to talk about. The processors and consumers get what they want and they pay for what they get.

What happens then is VAM operates from grower to retailer and right through to the swing ticket at the point of purchase if retailers wish and only if they wish. Customers are then assured that they are getting Australian Merino wool and Australian woolgrowers get the recognition in the marketplace for quality. More importantly, as I said before, those retailers get a point of differentiation, if they want it.

VAM also means we can target our investments, differentiate Australian Merino from inferior wools and of course those from other nations. This puts customer pressure on processors not to blend quality, so this is another checkpoint through the system, which we think will work extremely well and it doesn't matter whether they are providing that final product to somebody in Treviso, Shanghai or Milwaukee or wherever.

The UNY company, the third largest Japanese chain store, is an international retailer that is supporting the VAM system on the swing tickets of their fashion apparel garments. It originally ordered 11 product lines, which represents 270,000 garments, where the VAM was a critical element of the order. It was very successful, with 99 per cent of these garments sold, verified as Australian Merino and the new order which is coming forward - they have already placed another order for well over a million garments, so that system has worked very well.

The major elements of our global strategy therefore are:

1. Textile innovations to make Australian Merino wool softer, easier to care for, easier to colour, more durable in the sportswear market, cheaper to manufacture, to give the end product an edge.
2. Direct relationships with global businesses and partners who dominate the world apparel trade; and work with companies that sell significant volume.
3. The VAM scheme, the Verification of Australian Merino.

To give all that focus, because it's nice to talk about all that, the Board has set a new target and the target is for 30 million kilograms clean of new demand for Australian Merino by the year 2010. We monitor the figures every month - we only just started to do it in the last few months - to see how we are progressing towards this target each month. The Board is confident we can achieve this target, and when we do, we will have significantly moved the demand curve to sell more Australian Merino at higher prices.

While we might have had the marketing model right, we simply cannot rest because the process will have to go on and on. We need to know more about what the consumers want; what our textile industry partners want and to work on the next generation of innovation.

So, to get that sort of information, we have recently commissioned international textile researchers Millward Brown to survey 18,000 people - I think again that was mentioned by Pascal this morning - in our top ten current and potential retail markets. This survey will help us identify the gaps between consumers' perceptions and the reality of Australian Merino and guide future technology investments and marketing programs in the right way. We will follow the changes over time and see how attitudes and buying habits change.

As a research company, we try a lot of innovation and obviously it doesn't all work, and therefore we do not put all our eggs in one basket. It is an important process to go through, and even more important is the mechanism to evaluate our successes, and I have just described how we are doing it with our own particular business-to-business arrangements.

So, as most of you know, we have been investing in the test-marketing program in the US with two major retailers and we have joined with IWTO and The Woolmark Company in this venture. The US test-marketing program gave us the opportunity to evaluate another marketing model; based on a customer oriented selling program. The US marketing program came as a result of international pressure at the Hobart meeting two years ago from IWTO and pressure which was designed to market wool more to consumers.

Interestingly, again as some of you will know, ACIL Tasman has concluded that the per bale levy, that is levied after the sale of wool, that per bale levy ended up being largely funded by Australian woolgrowers and I suppose that is no real surprise to most of you. Nevertheless, we have invested in this trial because it is a trial, and that's what our job is, and we were aware that it would answer some very important questions about the return on investment. AWI have insisted that the results be strongly evaluated by two separate market analysis firms and we will of course carefully monitor the results.

To change the subject, while drought is a major threat to our business - one of the worst droughts that I have ever come across I must say; I don't know whether it's the worst in a thousand years - it doesn't matter much, it's been so bad - an even bigger threat still exists and that is of the animal rights movements, the activists, such as PETA and their Australian counterparts, I have to say, but we are completely determined not to yield to any of these threats.

This time last year, many of you will remember, we were in the process of meeting with retailers who were being besieged by the animal rights activists convincing them, or trying to convince them, not to succumb to the pressure being put on them to walk away from wool. In one way it was a positive because it provided us with a unique opportunity to talk to some of the biggest retailers in the world about how fantastic Australian Merino wool is and some of the innovative uses are being developed by those partners now.

PETA has quietened down somewhat, and we intend that it stays that way. The money AWI and Australian woolgrowers are spending to defend the industry against these radicals is significant and we are, of course, seeking to recover some of this cost through the legal case. The case is proceeding quite slowly. Despite claims in the media that PETA and its lawyers are confident of victory, they are clearly reluctant to go to trial, or even seriously enter the discovery phase for that matter. The money is well spent and there is no doubt the court case and indeed the entire taskforce strategy, which many of you in this room were involved in, is having an impact on PETA. We are completely determined to keep up the pressure because there is no doubt that their aim is to shut this industry down. If it is not mulesing it will be something else and we cannot and will not allow that to happen.

I have addressed that industry threat but let us now look to the future - the merger with AWS. I have to say that it is quite difficult to talk about this because if we say too much it might affect the decisions of other people in the next five, six or seven weeks, both here and overseas, but I have to say to you that we have had a wonderful cooperation in recent months between AWS and AWI. Barry Walker, the Chairman of AWS, and I are constantly in touch with one another and the whole thrust is forward, so this merger, integration, call it what you like, I believe will go ahead. I believe we will meet the deadline. I cannot take you through all the pros and cons of that but I think that is going to happen, so with that and the recruitment of a new CEO, and importantly the result of WoolPoll, which you were all involved in, these are chances for all of us to look again.

WoolPoll is a chance for all of us, as woolgrowers, to decide on the investment we want to make in our industry into the future. Dr John Keniry headed up the WoolPoll process, to ensure it is carried out independently and all growers have an opportunity to provide input. He has done an excellent job, yet again, over three WoolPolls and has educated the industry on the importance and the integrity of this poll. I thank him and his panel for a job well done yet again.

I am pleased to announce the result of the WoolPoll, which should come up on the screen any minute, 16,190 woolgrowers voted: 51.6 per cent of eligible votes were cast; there were less votes due to the drought; 56 per cent of voters voted for a 2 per cent levy; therefore 2 per cent is the levy rate that will be recommended to the Minister to take effect from July 2007. WoolPoll didn't need to go to the preferential voting system because there were above 50 per cent of votes cast in favour of 2 per cent.

In regards the two supplementary questions, 80 per cent of votes voted in favour of amending the statutory funding agreement to give AWI more flexibility to address emerging issues, so long as those issues were or its actions were for the benefit of Australian woolgrowers. The second question that was asked, if the levy should apply to all wool, no matter how it is harvested; and not surprisingly 90 per cent voted in favour of this also.

So it is business as usual, with 40 per cent to on-farm activities and 60 per cent to post-farm activities - 35 million in the post-farm area and just over 20 million in the on-farm area. Of course this will be reviewed from time to time in line with the drought and the forecasts, which come forward from time to time, if those forecasts happen to change the production evaluations by much.

The merging of the two companies will resolve a flaw in the way the product marketing and on-farm R&D institutions were established in the industry a few years ago. While AWS and The Woolmark Company will bring new people, new networks and experience into the team marketing Australia Merino, I am convinced these direct marketing business relationships we have talked about will continue, that that model will continue to be the right strategy to build demand for Australian Merino.

I mentioned the integration a minute ago but I would say a couple more things. Both the Chairman of AWS and I have been talking to the Minister in recent days, and I repeat that I have no reason to think we cannot solve this vexed issue of this integration by the end of December, as we have said for some time.

I want to pay tribute to the Australian Government for its support of the wool industry over the past year. I know the Minister for Agriculture, Fisheries and Forestry, Peter McGauran, takes a keen interest in the wool industry and this particular problem and he will play an important part in effecting the merger.

I would like to just mention now a couple of things to do with my Board. I would like on behalf of the Board, and all of us here really, to thank our senior management. I think this last year has given us a sea change, not only in the direction but in the direction change before that, but we have actually I think, as those of you here this morning saw, we have been able to deliver these arrangements with manufacturers and retailers around the world, so I would like to thank our dedicated management for an excellent year. They are a high quality management team and staff team, they are hard working and I think you should all be impressed by what you saw here this morning and the result of all of their work.

Len Stephens will be leaving us at the end of the year. He has been here during all of this development. It was pretty tough stuff when he first came and I don't suppose much less now, Len, but he has had a good team and I have found him an absolute delight to work with. He is moving on and AWI is moving on and I wish him the very best of good fortune in his new endeavours. You will hear from him in a minute but I would like to register with us here today our thanks to Len Stephens for an excellent job and, in particular, even after he had made the decision to leave he still is still working 18 hours a day for this industry and will do so until December when he leaves.

Finally, ladies and gentlemen, we have had some great achievements in productivity on-farm. There is enormous potential to leverage those successes off-farm. So I would encourage you to look ahead to the future with passion and commitment to this industry. I would encourage you to take no notice of the doomsayers because things will change for the good, as you have seen from increased wool prices of recent times which we are assured on the one hand is most probably from real demand, a little bit perhaps from the effect of the drought. If we can encourage the heavens to open even more than they have in Armidale this week, then prospects in this industry will change quite quickly.

I am convinced we have got the right plan, we have some early results and we have so many passionate and committed people in the wool industry, using the collective system of levy funding we have in place, we can create the opportunities to see this great Australian industry stride ahead yet again. Thank you very much indeed.

I hope I haven't taken too long with that so we won't be cutting your questions down but I now invite your questions and comments on that report. Please proceed to the microphone, those of you holding a yellow or green card, and show that card to an AWI member if there is one there. When I give you the signal to proceed, please introduce yourself to the meeting by clearly stating your name, direct your question or comment to me, and it is essential the comments are to do with things to do with this report, and it also essential that everybody hears your question or comment.

GEORGE WARD: George Ward, Armidale. We are going through a very bad drought here in Armidale at the moment. For those in the business it's generally much better than this but we did the best we could to have good weather for you. First of all, I would like to congratulate the Chairman and the whole staff on the progress they have made this year. Last year in Adelaide it was clear that the program was set in train where building of alliances and new products were underway and there has been quite a long time and quite a lot of problems to get that on track. Now we are on track and I can see that there is going to be quite an improvement in the demand for wool with AWI going the way they are and I would like to congratulate you all on that.

I think though that we should move to 65-35 per cent of our wool on the farm. Now I think the harvesting and the parasites are the two things we need worry about, so far as on the farm, the rest of them I think we can pretty well handle ourselves. At this stage I would also like to say what a wonderful job Len Stephens has done. I remember when he took over things were a real mess and I have been following things pretty closely when we were at Hay there and Len has done a wonderful job and I'd like to commend the whole lot of you on what you've done. Thank you.

IAN McLACHLAN: Thank you, George. Are there any other questions?

MARTIN OPPENHEIMER: Martin Oppenheimer, Australian Wool Growers Association. You have covered the issue of the integration briefly and I just wanted to take you back to some statements you made back at the IWTO conference last year where you said that you would develop the business plans and consider the extent to which levy funds should be used for more market development. You also said it was imperative that we resolve these matters by respective AGMs in November. Of course that was last year. Woolgrowers and shareholders are very frustrated about the length of time it has taken to bring these matters to resolution. We understand there were issues with the IWS pension fund but in the meantime we've got the issue of duplication happening. The Australian Merino branding program that you've talked about, and I heard last night that there are plans for six or eight sub-brands from the Australian Merino brand. We already have with Woolmark the Merino brand and many sub-brands - I think there are over 200. So when are we going to get to the point where we can actually move forward and stop the duplications? There are plenty of other examples of duplication in other areas but that is probably one of the most obvious and plain ones.

IAN McLACHLAN: I can tell you, nobody is more frustrated than we are about this lack of progress in the integration matter but we can't just suddenly say, as people occasionally say to me, just fix it. You can't just fix something that depends on a plan, a superannuation plan, which benefits and is run by a series of benefits to beneficiaries of those people that used to work for IWS in the UK, some of whom have been in that superannuation fund for 20-odd years, where the trustees are citizens of the UK and where they make decisions when they feel like making decisions.

I must say that they seem to be concentrating on this issue very much, of recent times, but it just isn't easy to get them to suddenly make decisions about things over 12,000 miles. We work for AWI not for AWS and I sympathise therefore for AWS when they're trying to get decisions but I am necessarily cautious about saying too much about this because the decisions that need to be made need to be made without any other great disturbances where people might inaccurately record something that we say or where I say something that is precipitously unwise.

Yes, we are all frustrated and, yes, there are some duplications taking place. Of course there are some duplications taking place but I also remind you that back in 1999 we recommended to the Government that this duplication did not take place and it was a great frustration to me to see that it did take place and with predictable results, so that's why we're trying to put it back together. We started with this whole process in Hobart two years ago. I still say to you, I am confident that we can deliver a result by 31 December, if not well cut my throat. We are trying as hard as we possibly can to get a resolution between a number of parties, some of which are in London, some of which are here in Australia, some of which are governmental and so on.

JAMES BURRIDGE: We have been growing wool here in the New England probably since - a lot of people have been growing since the late 1880s - here in the New England I don't agree with this gentleman here. I don't think this season has been too bad. You can go from, whether it's to Gloucester and it's all right. It's nothing like as bad as southern New South Wales and a lot of our other areas. The point is, Mr McLachlan, a lot of people here in the New England are really seriously questioning the price of their wool. There is a big move. This is probably the hardest superfine wool growing in Australia. A lot of people are seriously thinking about going into cattle and I think the problem is that really you are spending too much money on on-farm research.

People are not supering. Why are they cell grazing? They're cell grazing because they can't afford to put onto super and that means their production is smaller, the price is still rising only very gradually - it has improved in the last - actually the last Newcastle sale was quite a good rise, surprisingly enough. Maybe the majority aren't questioning the spending on on-farm but a lot are and I think a lot of us, maybe not the majority, we're not at all happy. I think you're spending far too much. It's 21 million. It probably should be about five or six million. You've got people like Tiger Woods in America, the man with all the money in the world, why is he wearing a Nike synthetic top when he probably drives a Bentley and a Rolls Royce. The best product he could have would be one of these new products we've invented but he's not wearing it. Anyway, I could say a lot more and that's just my opinion.

IAN McLACHLAN: Yes, I got your message. Look, all I can say to you is, we just can't walk away from trying to change the mulesing system and it's very expensive. You can't walk away from trying to change the shearing system. It's been going, even mechanically, since 1901 or 1897 or whenever Mr Wolsley produced his first hand scissors. They are very expensive things. We don't think we can walk away from genetic improvement and we're sure we can't walk away from parasite work, although George thinks so, but overall when you come down to WoolPoll, you come down to people making a judgment about the balance of will and the balance of what people want is around about what we are doing.

We cut down from about 50-50 down to 60-40 or probably a little bit under although, interestingly enough, it's quite easy to deliver on the on-farm programs, they seem to always absorb the money and the more difficult off-farm processing-type, research-type areas don't necessarily spend exactly what they're supposed to spend or they don't get that far down through the milestones. We take notice of what you said. I know that this has been going on for a long time and the fine wool people, in particular, have had this view but all I can say is that on the balance the Board comes to this view and that most people seem to agree, and that is what this is, a collective of people. I hope you think that what you've seen this morning is a hell of a lot of progress from where we were only a few years ago.

PIP MERRIMAN: My name is Pip Merriman. I think I represent an average of the fine wool people and we are all on the verge or people we know are leaving the industry, for other things, either to run because they're going broke. I think you should focus on the core entity, which is selling wool and increasing the pricing to give us a future for our children to want to be in this industry, instead of going to the city and doing other things. One of my main concerns is that 60-40 break-up, I don't think it's right, I think it should be 80-20, somewhere around that.

The contamination, we should be fighting from keeping our industry from being contaminated by shedding wool sheep, dorpers and dohnes, that is our biggest concern. We mightn't have an industry if we don't stop that and legally fight those people to protect our industry. I think if we're going to reach the 30 million target - how are we going to do that if we don't have the growers staying in the industry. You've shown us here these wonderful products using 18-19 micron superfine wool to market the wool but those are the people that are suffering hard and they are letting dorpers and dohnes into their area and there will be none of them left soon because they are not viable. We need immediate help - not long-term - or we won't be here.

IAN McLACHLAN: I can't disagree with a lot of the things you've said to do with the fact that we've been doing it hard in the fine wool area - harder than most - and yet I remember in '99 one or two people in this room were involved in a conversation where a fine wool grower said to somebody I know is growing 24 micron, "You'll be out of business, son, because you're growing all the wrong wool." What happened is, everybody moved to 19, 18 or whatever and the whole clip has gone finer, so we've got that little bit of - not little bit - we've got a major overproduction in an area. That's why we're working so hard at that area to get these business arrangements going with the people at the other end of the apparel stream.

All I can say is, I'm sorry. You might like it to be 80-20 or whatever but it will turn out to be 60-40 for a while and if we manage to crack the shearing business, we crack the mulesing business - I mean this mulesing business is so dangerous - it is so dangerous - you just cannot afford to let it go. We spent an awful lot of money sending people around and around the world just pacifying retailers who were prepared to walk and that's just cost an awful lot of money preparing the work for them to get the governments involved. We've had the Federal government involved, we've had all sorts of people, the ambassadors all over the world in Italy and the US and the UK and Ireland, everywhere else, coordinating all the push to pacify people and get them to relax. It's cost an awful lot of money as well, of course, as well as the court cases. I can just tell you, if you did that work that you're saying you're threatened by these other fibres that the other animals that have darker fibres, that would go down as an on-farm cost; most probably an on-farm cost rather than a post-farm. Where we talk about post-farm we're talking about through the production chain.

RON GILLIS: Ron Gillis. You're going on geneticists - you're moving on genetics and claim that's the way to go - two primary industries have already adopted genetics, basically the pork industry and the chicken industry, and basically it's seen pretty much the extermination of small breeders and also the stud breeders actually that bred these things. Basically one of the things that the geneticists missed out on in the pork industry was the fact that they didn't even look at whether people - they lost the taste of the pork actually - it lost its taste. Basically I'm a bit concerned that basically with this move to running that way. I think basically I was particularly impressed by your jumper collection but basically the wool suit collection, there's not much difference between the feel of a washable wool suit and other fabrics and I think we're losing something in the process because Alpaca things, they're bringing \$100,000 whereas you're Merino, stud Merinos, are declining in value.

IAN McLACHLAN: All right. Can I just say on the genetic side, we think that by doing the genetics and genomics work, but particularly being able to evaluate the genetic abilities of an animal, a sheep, that has this characteristic or that characteristic, that good performance or that bad performance, with the gigantic variety of climate and land types around Australia on which people run sheep, that you will be able to pick those attributes that you want.

I don't see, therefore, that we're going to finish up with just a narrow pool of little genes that everybody uses for like, say, in the pork industry or the chicken industry. They are mostly housed industries in any case and they are not out there in the elements, so there are other industries that have used genetics, like beef cattle, dairy, wheat, grain, goodness knows what. The idea that just because we're trying to improve the genetics of animals that we'll all finish up with no stud breeders I don't think is true but I do think what will happen is that some of the stud breeders will win out big time because they will have superior genes in large areas that people want.

In regard to the machine washable suits, all I can tell you is that the proof of that pudding will be, do we sell them and do we sell big quantities? Do the retailers sell big quantities of them or don't they? We will adjust our thrust through all these various types of apparel and these various firms depending on how well they do.

TED O'BRIEN: Mr Chairman, Ted O'Brien. It is not possible to sustain a viable trade in the face of the prospect of falling supply. Since the dollar went up in 2003 it took the price of wool down to a level, which gave a prospect of falling supply, and it has been there since. Now, what in your view does the indicator price need to be to take away that prospect of falling supply, that is, the price at which growers will stop joining their Merino ewes to crossbred rams? This won't be the same for one farm as the next but what does our indicator price need to be?

IAN McLACHLAN: Where's Chris Wilcox? Obviously, we would all like the price of our wool to go up a couple of dollars a kilo greasy and I know plenty of medium woolgrowers who say to me, "If I was getting 900 cents I'd sign up tomorrow. I'd sign up for the next five years." We're getting there, bit by bit, the last few weeks. I can't give you a definitive answer as to what it costs to grow wool in New England because I don't grow wool in New England or what it costs to grow wool in the wheat belt. I know what it costs to grow wool in the South Australian and New South Wales pastoral industry to the cent but obviously - and you all do different things and I can't tell you what it costs to grow 16 micron wool here and 18 micron in a farm next door in the same climate - you have to do that. That is your job and therefore you've got to work out what market indicator you need or otherwise you have to change your enterprise.

I also repeat what I said before - or I didn't quite say this - but if these seasons had been different this whole industry would be in a completely different situation. The price of wool mightn't be any greater but all your off-sales product would be going for goodness knows how much. We all know that the price of young sheep was less than half, maybe less a third in some cases, during the spring sales in the south and it was probably the same here. We all know that five and a halves and six and a halves? were in exactly the same boat but the lamb market fell for a while and it's starting to push back up. We all know those things because it was to do with the drought. I can just simply say that things will change but you will have to do your own work as to whether your own business is going to survive and we know that people who run farms next door to another, the difference between their performance can be as high as 50 per cent, so that is the only answer I can give you.

That is the last question and I will now ask Len Stephens to give his address. Len's address will review the financial statements of the company for the year to 30 June, it is agenda item 1 of the notified business and includes consideration of related director's report, director's declarations and the auditor's report, all of which are now before the meeting. I invite the CEO of the company, Dr Len Stephens, to address you. Thank you.