

6 June 2005

Dear Shareholder,

Producers across most of Eastern Australia are facing very uncertain times with many parts of the country facing a further year of drought. Thankfully many areas of Western Australia have received good rain and are enjoying a better season.

It is important that Australian Wool Innovation stays focused on the task of building demand for your product, Australian Merino wool, and finding better solutions to on-farm issues such as shearing and mulesing.

Marketing and research integration

There have been significant discussions in an effort to integrate the research and marketing activities of the Australian wool industry.

Both AWI and Australian Wool Services (AWS) – owners of The Woolmark Company – have a strong commitment to delivering shareholders a more effective research and marketing service that will build the global demand for Australian Merino wool.

While we are progressing these discussions with the utmost urgency, there are many complex legal and business issues being considered. We will provide shareholders of both companies with recommendations or progress as soon as possible.

AWI offers US\$5 million for marketing

More than 400 delegates representing wool businesses from around the world, including many Australian woolgrowers, took part in lively debate and discussion at the recent International Wool Textile Organisation (IWTO) Congress in Hobart.

The enthusiasm shown by all sectors of the wool apparel supply chain to work together to build demand for Merino wool in global apparel markets was very pleasing.

As such, the AWI Board Directors quickly made the decision while at the Congress to help fund the proposed test marketing program focused on womenswear in the key markets of Europe, Japan, China and the United States.

We took on the IWTO President's idea of co-funding by the rest of industry and in order to get a worthwhile test program AWI has offered US\$5 million if it can be matched by industry.

Australian Merino push to global customers: innovate or perish

AWI is pushing ahead by showing more local and international retailers and designers the benefits of using Australian Merino wool.

Business leaders globally recognise that continuous innovation is essential to ongoing success. Innovation is AWI's business and ongoing investment in this is fundamental to the future of the Australian wool industry.

AWI is working with businesses through the supply chain – from early stage processors through to the retail shop front – to get better performing Merino products onto the market.

One of AWI's most exciting new projects is with the Hong Kong-based Novel Group, the world's largest spinner and knitter with sales of 80 million pieces of knitwear per year.

AWI is working with the Novel Group on an innovative application of technology to produce a new softer and brighter woollen yarn. AWI's target is to increase the Novel Group's annual use of Australian Merino wool by two million kilograms per year by the end of 2007.

More recently, the AWI Board has approved funding to re-introduce total easy care knitwear into the Japanese market. A major shift to combined washing/tumble dry machines in Japan in the past 10 years means that total easy care is now more important to Japanese consumers.

Together with The Woolmark Company, AWI will be working directly with retailer Ito Yokado – the second largest of Japan's superstore chains with annual apparel turnover of more than US\$1.5 billion – as well as the knitter Mabuchi Sen'i and spinner Toa Boshuoku Co, to get the knitwear into stores for their 2006/07 autumn/winter.

Whether it is a new application of existing technology or completely new developments, AWI is committed to getting these new performance-improving innovations to manufacturers and retailers. It is vital we do this in order to build the demand for Australian Merino wool.

China: AWI targets world's largest apparel market

The biggest push for AWI is in the Chinese market where we have just recruited three new account managers to focus on working directly with retailers and manufacturers in the womenswear, knitwear and menswear sectors.

China is not only our biggest export market but it is also the world's largest clothing manufacturer and exporter – it is the gateway to world apparel markets and therefore crucial in increasing demand for Australian Merino fibre.

In China we are targeting the market leaders and major players in retail and manufacturing, taking the latest developments to them and working with them on new innovations.

For example, we are working with the Heilan Group to introduce machine washable wool blend suits into shops for the coming autumn/winter. Heilan is one of China's largest vertically integrated menswear manufacturers and retailers – the target for this project is for annual sales of 100,000 machine washable suits within two years.

Other market leaders AWI is working with in a range of innovation and product marketing projects include Xiano, China's biggest spinner for knitting; vertically integrated apparel manufacturer Shandong Ruyi, and Esquel, a major apparel manufacturer and exporter.

Global brands targeted in United States

AWI seeks to invest your levy in areas where we can get the best results – that is, targeting the major international brands who dominate the large northern hemisphere apparel markets.

As a result, later this month AWI is opening an office in New York, home to the key decision-makers for a large number of the world's largest and most influential global clothing brands.

The focus in the US will be on introducing leading designers and retailers to Australian Merino and in particular the latest techniques and technologies that will deliver apparel with better softness, drape, colour and feel to their customers.

Online marketing support for retailers

The AWI Board has just approved an online marketing tool for brand partners, retailers and manufacturers, promoting the superior technical and innovation benefits of Australian Merino fibre.

The marketing tool will provide the latest technical information and innovations. Just as importantly it will also provide marketing opportunities such as point-of-sale swing tags, fact sheets, brochures and imagery that can be downloaded for their use.

An added benefit is that consumers will also be able to visit areas of the website to learn about the benefits of Australian Merino.

The projects I have highlighted in this letter are just some of the many initiatives AWI is working on to increase demand for Australian Merino wool around the world.

We target business partners who have the ability and global reach to sell innovative Merino wool products to consumers in the major northern hemisphere clothing markets.

Many more project examples are outlined in Beyond the Bale, AWI's bi-monthly newspaper provided to you as a shareholder.

If you would like more information on any of AWI's projects or initiatives, in the textiles area or in on-farm production, please visit the AWI website at www.wool.com.au or phone toll free 1800 070 099.

AWI is continually adapting its business to better meet the requirements of the fast-moving international fashion and retail business world. We will keep doing so to ensure we do everything we can to get more international retailers selling innovative Australian Merino products to global consumers.

If Australian Merino woolgrowers are to prosper as individual businesses and as an industry then we must continue to invest in innovation. In short, we innovate or suffer the consequences.

Yours sincerely



Ian McLachlan AO
Chairman
Australian Wool Innovation Ltd