

Australian Wool Services Limited

ABN 29 095 401 200

Notice of General Meeting and Explanatory Statement

GENERAL MEETING

TIME and DATE: 10.30 am Tuesday 28 August 2007

WHERE: Treacy Conference Centre,
126 The Avenue, Parkville, Melbourne, Victoria

MOTION: To approve the sale of AWS' Assets to AWI in order to integrate AWS' core business with the business of AWI

THE NOTICE OF GENERAL MEETING IS SET OUT IN APPENDIX II

Details of how to vote are on page 11

This Notice of General Meeting and Explanatory Statement should be read in its entirety. If shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

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AUSTRALIAN WOOL SERVICES LIMITED

Dear Shareholder,

After due consideration, your Board of Directors recommends that, at Australian Wool Services' forthcoming General Meeting, you support the motion set out in the attached notice of meeting to:

approve the sale of AWS' Assets to AWI in order to integrate AWS' core business with the business of AWI.

This letter and support material has been developed to help inform your vote.

How have we come to this point?

For some years AWS has been working under difficult financial and operational limitations.

AWS is funded 100% by commercial activities. All of our income is derived from programs such as the sale of Woolmark licences, wool product technology and market intelligence. So saying, our fortunes are tied to the health of the global wool textile industry and our own capacity to invest in our assets, both of which have been constrained in recent years.

The AWS legal and financial structure is also complicated. AWS was established in 2001 as a successor to the Australian Wool Research and Promotion Organisation (AWRAP), which in turn was the principal member of the International Wool Secretariat. AWS originally comprised two subsidiaries – The Woolmark Company and Australian Wool Innovation (AWI). AWI was subsequently de-merged from AWS in 2002.

Because of our history (given our origins in the International Wool Secretariat – a company founded in 1937), the need for Woolmark certification to be country specific, the diverse nature of our commercial interests and the fact that we have so many stakeholders, the AWS business has many operating tensions.

Recent major structural changes occurring within the global wool textile industry, especially the rapid relocation of the wool textile industry from the traditional countries of Western Europe and Japan to Eastern Europe, China and elsewhere in Asia, together with a down-sizing of the global wool industry has meant a decline in the number of licensees and business in the traditional countries, without the equivalent increase in the developing countries of the world.

These changes have been compounded by short term impacts on wool textile demand and economic confidence as a result of major unexpected events such as the September 11, 2001 attacks in New York and other terrorist activity, SARS in Asia, continued tough economic conditions in major retail markets of Western Europe and Japan and the Australian drought.

As a consequence, AWS has not been able to generate sufficient income to undertake wool marketing activities on behalf of the wool industry.

These circumstances, when taken in conjunction with the liabilities we have carried from our predecessor entities (most notably AWS' exposure to the IWS Retirement Benefits Plan (known as the IWS Pension Fund)), have resulted in a business whose cash and net asset position have been steadily deteriorating.

Due to these factors, AWS has not had sufficient financial resources to invest in our own assets.

Quite simply, the AWS business model is not sustainable.

What will Integration achieve?

To address this situation and to ensure the assets of AWS remain within Australian ownership for the benefit of Australian woolgrowers and the wool industry as a whole, AWS and AWI have agreed to integrate. What this means is that the core business of AWS will merge into the existing business of AWI by AWI purchasing the majority of AWS' assets.

On 31 July 2007, AWS entered into a share sale and purchase agreement with AWI, under which AWI, through its wholly-owned subsidiary Woolmark Holdings Pty Ltd, agreed to acquire a 100% interest in The Woolmark Company. The Woolmark Company owns the majority of AWS' assets, including the Woolmark certification trade mark and associated brands and trade marks, the WoolfleeceTM unregistered trade mark and associated brands, the SportwoolTM and WooldscienceTM technology businesses and trade marks, the Woolmark licensing business and the market intelligence business. AWI will also acquire the OptimTM technology business and other working assets of AWS, including stock and plant and equipment.

AWI will pay to AWS \$15 million plus the book value of the net tangible assets purchased by AWI less a 'redundancy allowance', agreed by the parties at \$5 million. AWI will also pay to AWS \$250,000 to allow AWS to make good various leased properties.

Integration is being proposed on the basis that it will deliver the following benefits to AWS Shareholders:

- It ensures AWS' intellectual property, infrastructure and network remain within the ownership of Australian woolgrowers for the benefit of the Australian wool industry;
- It provides a mechanism for addressing the IWS Pension Fund shortfall and achieving, over a period of time, a clean break with the Fund;
- It provides AWS Shareholders with the potential to receive a return on their AWS Shares once the IWS Pension Fund shortfall has been addressed;
- It will deliver synergy benefits captured by consolidation of woolgrower resources and assets for research and development and marketing;
- It will create a more effective and efficient linking of research and development and commercialisation activities, and associated marketing initiatives under one Board and one management team; and
- It provides an opportunity for AWI to reinvigorate the Woolmark (and other assets) for the benefit of Australian woolgrowers to help re-build the demand for Australian merino wool.

In this Explanatory Statement we have outlined the key details of the Integration, the benefits it is expected to deliver to you, the reasons we believe you should vote for it and other relevant information. We encourage you to read the Explanatory Statement carefully.

Fair and reasonable to AWS Shareholders

The AWS Directors consider the price to be paid by AWI to be the fair value of the assets it is purchasing. \$15 million of the purchase price will be funded through a grant to AWI from the Australian Federal Minister for Agriculture, Fisheries and Forestry. The Independent Expert, international accounting and consulting firm Grant Thornton

Corporate (NSW) Pty Ltd, has reviewed the terms of the sale of the Assets to AWI and confirms that "the transaction is fair and reasonable to the shareholders of AWS". The Independent Expert's Report is included in Appendix I.

What would happen after Integration?

Following completion of the Integration, AWS will have cash and will retain ownership of its wool industry manufacturing company Andar Holdings as well as Woolmark (Europe), the company to which the IWS Pension Fund liability is attached. AWS will also be entitled to receive and retain the proceeds from the sale of a business premises in Mumbai, India in the event that the property is sold following Integration.

AWS will operate a small secretariat and share registry from offices in Melbourne.

The major role of the AWS business following Integration will be to meet the obligations agreed with the Trustees of the IWS Pension Fund.

Once a clean break with the IWS Pension Fund has been achieved, the AWS Directors at that time will make a determination as to the future direction of AWS. The current directors expect that the residual AWS Group will be wound up and its assets distributed to AWS Shareholders once all the costs of winding up the AWS Group have been paid, however any such decision would be subject to the approval of the AWS Shareholders at the relevant time.

We support Integration. Have your say.

The AWS Directors unanimously support the Integration and recommend you vote in favour of the motion set out in the notice of meeting to:

approve the sale of AWS' Assets to AWI in order to integrate AWS' core business with the business of AWI.

Each AWS Director holding AWS Shares intends to vote in favour of the Integration.

You can cast your vote by completing and returning the enclosed proxy form or you can vote in person at the General Meeting to be held at 10:30am on Tuesday 28 August 2007 at the Treacy Conference Centre, 126 The Avenue, Parkville, Melbourne, Victoria. Details of how to vote are set out on page 11.

If you have any questions about the Integration you can call our shareholder information line on 1300 361 735. You can also visit the AWS website at www.woolmark.com.

We look forward to your support.

Yours sincerely,



Barry Walker

Chairman

3 August 2007

This section provides summary answers to questions that AWS Shareholders may have in relation to the Integration.

QUESTION	ANSWER	For further information see:
Overview		
What is the Integration?	<p>The Integration will combine the Assets of AWS' core business into AWI's existing business.</p> <p>The Assets which will be acquired by AWI include:</p> <ul style="list-style-type: none"> • the Woolmark certification trade mark and associated brands and trade marks; • the Sportwool™ and Woolscience,™ technology businesses and trade marks; • the Woolfleece™ unregistered trade mark and associated brands; • the Optim™ trade mark and related technology business; • other working assets of AWS, including stock and plant and equipment; • the Woolmark global licensing business; and • the market intelligence business. 	Chairman's Letter, Section 4.1 and Section 6.2
Is AWS Shareholder approval required?	<p>The Integration will only be implemented if it is approved by the Requisite Majority of AWS Shareholders at the General Meeting to be held on 28 August 2007 i.e. more than 50% of AWS Shareholders who are present and voting, either in person or by proxy, attorney, or in the case of a corporation, its duly appointed corporate representative.</p>	Section 3 and Notice of Meeting (Appendix II)
How will Integration be implemented?	<p>AWS' wholly-owned subsidiary, The Woolmark Company, owns the majority of the Assets.</p> <p>All of the shares in The Woolmark Company will be transferred to Woolmark Holdings, a wholly-owned subsidiary of AWI formed for the purpose of acquiring the Assets.</p> <p>AWI will also acquire the Optim™ trade mark and related technology business and other working assets from AWS and its subsidiaries, including stock and plant and equipment.</p>	Chairman's letter and Section 6

<p>Are there any conditions to Integration and what has already been achieved?</p>	<p>There are a number of conditions (which are set out in this Explanatory Statement) which have been or must be satisfied or waived before the Integration can become effective. These principally include:</p> <ol style="list-style-type: none"> 1 AWS Shareholders approving the sale of the Assets to AWI by the Requisite Majority at the General Meeting to be held on 28 August 2007; [IN PROGRESS] 2 In relation to the IWS Pension Fund: <ul style="list-style-type: none"> • AWS executing a final, written agreement with the Trustees of the IWS Pension Fund in relation to addressing the Pension Fund shortfall; [COMPLETED] • obtaining the requisite clearance from the UK Pensions Regulator. [IN PROGRESS] 3 The payment by the Australian Federal Minister for Agriculture, Fisheries and Forestry of the sum of \$15 million to AWI to fund the acquisition of the Assets; [IN PROGRESS] 4 Confirmation from the Australian Tax Office that AWI will retain its status as a tax exempt entity following the Integration; [IN PROGRESS] 5 Obtaining the consent of the Australian Competition and Consumer Commission under section 180 of the <i>Trade Marks Act 1995 (Cth)</i> to the assignment by The Woolmark Company of the registered certification marks to Woolmark Holdings; [IN PROGRESS] 6 The completion to the satisfaction of AWI of due diligence in relation to the tax affairs of AWS and its subsidiaries; [IN PROGRESS] 7 Obtaining the consent of CSIRO to the transfer or novation of certain license agreements, trade marks and patents which are owned by CSIRO, or to which CSIRO is a party. [IN PROGRESS] <p>The AWS Board expects that the conditions in progress can be satisfied.</p>	<p>Section 6.1 and 6.2(b)</p>
<p>Why is Integration being proposed?</p>	<p>The Integration is being proposed on the basis that it will deliver the following benefits to AWS Shareholders:</p> <ul style="list-style-type: none"> • It provides a mechanism for addressing the IWS Pension Fund shortfall and achieving over a period of time a clean break with the Fund. • It provides AWS Shareholders with the potential to receive a return on their AWS Shares once the IWS Pension Fund obligations have been met and the residual AWS Group has been wound up. 	<p>Chairman's Letter and Section 4.3</p>

	<ul style="list-style-type: none"> • It ensures the maintenance of AWS' intellectual property, infrastructure and network within the ownership of Australian woolgrowers for the benefit of the Australian wool industry. • There will be synergy benefits captured by the consolidation of woolgrower assets and resources for research and development and marketing under one board and management team. • A more effective linking of research and development with marketing and commercialisation activities. • It provides an opportunity for AWI to reinvigorate the Woolmark certification trade mark (and other assets) for the benefit of Australian woolgrowers to help re-build the demand for Australian merino wool. 	
What has been agreed with the IWS Pension Fund Trustees?	AWS has agreed to pay to the Trustees of the IWS Pension Fund an aggregate amount of A\$13 million in three annual payments (A\$9 million in 2008, A\$2 million in 2009 and A\$2 million in 2010) plus a share of the net profit from the sale of Andar Holdings and Mumbai property assets.	Section 5.2 (b) and Section 6.1(d)
What do the AWS Directors recommend?	<p>The AWS Directors have considered the advantages and disadvantages of the Integration and believe that the Integration is in the best interests of AWS Shareholders.</p> <p>The AWS Directors unanimously recommend that AWS Shareholders vote in favour of Integration.</p> <p>Each AWS Director who holds AWS Shares intends to vote in favour of the Integration.</p>	Section 4.2
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Integration is fair and reasonable to AWS Shareholders. The complete Independent Expert's Report is set out in Appendix I. You are encouraged to read it.	Independent Expert's Report – Appendix I
What are the possible reasons not to vote in favour of the Integration?	<p>While the AWS Directors unanimously recommend that you vote in favour of the Integration, some factors may lead AWS Shareholders to vote against it. These include:</p> <ul style="list-style-type: none"> • You may not agree with the AWS Directors' recommendations or the Independent Expert's conclusion. 	Section 4.4

	<ul style="list-style-type: none"> You may believe that the Assets of AWS, in particular the Woolmark certification trade mark and the Sportwool™ trade mark and business, can achieve a higher value if offered for sale on the open market. The nature of your investment may change. 	
What will happen to AWS if Integration proceeds?	<p>AWS will retain a Board comprising of four directors, and will operate a small secretariat and share registry from offices in Melbourne.</p> <p>The business will operate principally for the purpose of meeting its obligations to the Trustees of the IWS Pension Fund.</p> <p>In the short term, AWS will retain ownership of Andar Holdings as well as certain other residual assets and liabilities.</p> <p>The AWS Directors' intentions for AWS if the Integration is approved are set out in more detail in Section 5.7 of this Explanatory Statement.</p>	Section 5.7
What will happen to AWS if Integration does not proceed?	<p>If the Integration does not proceed, AWS will retain ownership of the Assets, and AWS will continue to operate as a stand alone entity. Your rights as an AWS Shareholder will remain unchanged.</p> <p>The AWS Directors consider the AWS business model to be unsustainable such that if the Integration does not proceed, it is likely that AWS will be forced either to sell the Assets on the open market or to appoint an administrator.</p>	Section 4.3(d)
If Integration proceeds, what will the structure of AWS look like?	<p>The structure of AWS following Integration is set out in Section 5.4(b) of this Explanatory Statement.</p>	Section 5.4(b)
What will I receive if Integration is approved?	<p>The Integration is designed to protect AWS Shareholders' investment in AWS. Dividends may not be paid to AWS Shareholders while AWS retains the liability to the IWS Pension Fund.</p> <p>Once a clean break with the IWS Pension Fund has been achieved, the AWS Directors at that time will make a determination as to the future direction of AWS. The current AWS Directors expect that the residual AWS Group will be wound up and its assets distributed to AWS Shareholders once all the costs of winding up the AWS Group have been paid, however any such decision would be subject to the approval of the AWS Shareholders at the relevant time.</p>	Section 4.1

Voting		
When and where will the General Meeting be held?	The General Meeting will be held on Tuesday, 28 August 2007 at the Treacy Conference Centre, 126 The Avenue, Parkville, Melbourne, Victoria commencing at 10:30am (Melbourne time).	Notice of Meeting (Appendix II)
Am I entitled to vote?	If you are registered as an AWS Shareholder on the Register at 10:30am on 28 August 2007, you will be entitled to vote at the General Meeting. You may vote in person at the meeting or by completing and lodging the proxy form entitled "General Meeting" accompanying this Explanatory Statement. The proxy form needs to be lodged by 10:30am on 26 August 2007.	Notice of Meeting – Notes (Appendix II)
Should I vote?	You do not have to vote. However, the AWS Directors believe that the Integration is important to all AWS Shareholders and unanimously recommend that you vote in favour of the Integration.	Section 4.2
What voting majority is required to approve Integration?	For the Integration to be approved, votes in favour must be received from a majority in number (more than 50 per cent) of AWS Shareholders who are present and voting, either in person or by proxy, attorney or, in the case of a corporation, its duly appointed corporate representative.	Notice of Meeting – Notes (Appendix II)
What happens if I do not vote or if I vote against the Integration?	Your vote will be counted in calculating whether the Requisite Majority has been obtained. The Integration will proceed if the Requisite Majority is obtained, even if you voted against the Integration.	Notice of Meeting – Notes (Appendix II)
When will the result of the meeting be known?	The result of the General Meeting will be available shortly after its conclusion and will be announced on AWS' website (www.woolmark.com) and in a media statement once available.	
Other		
Will AWS change its name?	As a condition of the Integration, AWS will be required to change its corporate name. It is planned that a special resolution resolving to change the name of AWS will be put to the AWS Shareholders at the company's next Annual General Meeting, to be held in November 2007. No decision has yet been made as to what the new name should be.	

3. Information on how to vote

3.1 Your vote is important

For Integration to proceed, it is necessary that sufficient AWS Shareholders vote in favour of the Integration i.e. greater than 50% of votes cast. The motion, set out in the attached notice of meeting, is:

to approve the sale of AWS' Assets to AWI in order to integrate AWS' core business with the business of AWI.

3.2 Notice of Meeting

The Integration will be voted on by AWS Shareholders at a meeting to be held at the Treacy Conference Centre, 126 The Avenue, Parkville, Melbourne, Victoria, on Tuesday 28 August, 2007 at 10.30 am (Melbourne time). The Notice of General Meeting is included in Appendix II.

3.3 Voting

If you are registered as at 10:30am on Tuesday 28 August 2007 as an AWS Shareholder you will be entitled to vote on the resolution to approve the Integration at the General Meeting.

You may vote at the General Meeting either in person, or by proxy, attorney, or, in the case of a corporation, its duly appointed corporate representative.

Your proxy form for the General Meeting at which you are entitled to vote accompanies this Explanatory Statement. Information setting out how you may vote by proxy is contained in the Notice of Meeting. You can vote by proxy by completing and returning the enclosed proxy form for the General Meeting to be received by Link Market Services Limited no later than 10:30am on 26 August 2007. Lodging a proxy form will not preclude you from attending and voting in person at the General Meeting.

You must return your proxy form by returning it:

in person to:

Level 12, 680 George Street
Sydney NSW 2000 Australia

by mail to:

Locked BAG A14, Sydney South NSW 1235 Australia

by facsimile to:

(02) 9287 0309

If you have any questions, please call our shareholder information line on 1300 361 735. You can also visit the AWS website at www.woolmark.com.

4. Summary recommendations and matters relevant to Shareholders' votes

4.1 Rationale for the Integration

The Directors consider that the business model for AWS is not sustainable.

The main purpose of the Integration is therefore to try to create a more financially viable business for the protection of the Australian wool industry which is sustainable beyond the short term.

Because of the various liabilities which AWS assumed from its predecessor entities, prior to its formation in 2001, and the demanding conditions in the global wool textile industry, AWS faces major financial and operating constraints.

Primary among those liabilities is its exposure to the IWS Pension Fund in respect of (mainly) former employees of a predecessor organisation of AWS, the International Wool Secretariat.

The funds received from the sale of the Assets to AWI will be used by AWS to enable it to meet its ongoing obligations to the IWS Pension Fund in accordance with the payment plan recently agreed with the Fund's Trustees. Those funds will also be used to meet the ongoing costs of running AWS as a small secretariat.

It is expected that the residual AWS Group will be wound up and its surplus assets distributed to AWS Shareholders once its obligations to the IWS Pension Fund have been satisfied and after the costs of winding up the AWS Group have been met. However, the decision to wind up the residual AWS Group will ultimately be subject to the approval of the AWS Shareholders at the relevant time.

The AWS Directors believe AWS is receiving fair value for the Assets, and consider that the sale of the Assets to AWI is necessary to enable the Assets (in particular the iconic Woolmark brand) to be retained within the Australian wool industry. The Integration is a co-operative approach to re-establishing the brand image of wool, in particular Australian merino wool, through the Integration of AWS' and AWI's respective businesses which are the product of many years of Australian woolgrower investment.

4.2 AWS Directors' recommendations

The AWS Directors unanimously recommend that AWS Shareholders vote in favour of the Integration.

The AWS Directors have considered the advantages and disadvantages of the Integration and believe that the Integration is in the best interests of AWS Shareholders. In making this recommendation, the AWS Directors have considered the following:

- the reasons why AWS Shareholders should vote in favour of the Integration, set out in Section 4.3;
- possible reasons not to vote in favour of the Integration, set out in Section 4.4; and
- the opinion of the Independent Expert set out in Appendix I;

Each AWS Director who holds AWS Shares, or on whose behalf AWS Shares are held, intends to vote in favour of the Integration.

4.3 Reasons to vote in favour of proposed Integration

(a) Enable AWS to meet its obligations to the IWS Pension Fund

The IWS Pension Fund deficit is substantial. As at 31 May 2007, the deficit was A\$22.1 million¹.

The AWS Directors have reached an agreement with the Trustees of the IWS Pension Fund which crystallises AWS' ongoing exposure to the Fund. The agreement with the Trustees is subject to AWS Shareholder approval being obtained to proceed with the Integration.

Pursuant to the agreement, AWS will make three annual payments to the IWS Pension Fund of A\$9m, A\$2m and A\$2m respectively, totalling A\$13m.

AWS also agreed to make a further payment to the Trustees in the event that Andar Holdings and/or the Mumbai property are sold above a certain value. In broad terms, the payment would be equal to 50% of the 'excess' of the net consideration received from the sale over the book value of each of those assets.

If either Andar Holdings or the Mumbai Property are not sold by 1 January 2010, a third party will be appointed to estimate the market value of these assets. The Trustees would then receive (in broad terms) 50% of the 'excess' of the net market value over the book value of each unsold asset.

The AWS Directors are of the opinion that the agreed payment plan, which is to be supported by an irrevocable letter of credit provided by a reputable bank in favour of the Trustees, will provide a clean break with the IWS Pension Fund by March 2012.

(b) Possible future distribution of assets to AWS Shareholders

The AWS Board will not approve payment of dividends to AWS Shareholders without the prior approval of the Trustees of the IWS Pension Fund until such time as all obligations towards the IWS Pension Fund as agreed have been met. If the Integration is approved, the AWS Board will include a Director nominated by the IWS Pension Fund Trustees, subject to the approval of AWS Shareholders at the next Annual General Meeting.

The current AWS Directors expect that the residual AWS Group will be wound up and its surplus assets distributed to AWS Shareholders once its obligations to the IWS Pension Fund have been satisfied and after the costs of winding up the AWS Group have been met. However, the decision to wind up the residual AWS Group will ultimately be subject to the approval of the AWS Shareholders at the relevant time.

(c) Retain AWS Assets in Australian ownership

The sale of the Assets to AWI will ensure that the Assets remain within the ownership of Australian woolgrowers for the benefit of the Australian wool industry.

AWS may be able to obtain a higher price for the Assets if they were sold on the open market. However, the sale of the Assets to any other buyer raises the risk that the Assets may be deployed to market wool grown outside of Australia, to Australian woolgrowers' detriment. The AWS Directors believe that an alternative competitive sale process of the Assets which excludes international participants will materially affect the level of competition in the sale process and accordingly affect the consideration payable. There is also the possibility that the Assets could be purchased by a participant in a competing textile industry. Either way, there is a realistic possibility that the Assets would be lost to Australian woolgrowers. The AWS Directors consider that such a scenario would be unsatisfactory given the size of the Australian wool industry's investment over many years in creating value in the Woolmark brand and in developing the Assets.

¹ Prior to the actuarial year end adjustments and the effects of the obligations of the agreement with the Trustees of the IWS Pension Fund

(d) Avoid appointment of an external administrator

One option (and indeed, in the AWS Directors' view the likely alternative if Integration does not proceed) is for the AWS Group to restructure as part of an insolvency process – the most likely one being administration followed by liquidation.

Although relatively small, AWS is a complex global group with operations in many countries with many legacy items. Administrator's and liquidator's fees would be significant and after allowing for such costs, the Directors of AWS believe that the likely return for AWS Shareholders (and for the beneficiaries of the IWS Pension Fund) would be relatively poor. Further, the administration and likely liquidation of AWS could result in the loss of most, if not all, jobs in the AWS Group, on the assumption that key Assets were sold to any other buyer.

(e) Provides an opportunity for the reinvigoration of the Woolmark certification trade mark and other assets

The Integration provides an opportunity for AWI to reinvigorate the Woolmark certification trade mark (and other assets) to help generate an increased demand for Australian merino wool. AWS has not, since its de-merger from AWI in 2002, had the necessary financial resources to enable it to do this.

(f) Independent Expert recommendation

The Independent Expert has concluded that the Integration is fair and reasonable to AWS Shareholders.

The Independent Expert's Report is included in Appendix I. AWS Shareholders are encouraged to read it in its entirety. It contains important information relevant to the Integration, the advantages and disadvantages of the Integration and the assumptions, qualifications and disclaimers on which the Independent Expert's conclusions are based.

(g) Consolidation strategy: effective linking of research and development with marketing

The Integration will allow for a more effective linking of research and development with marketing and commercialisation activities. There will be additional synergy benefits captured by the consolidation of woolgrower assets and resources for research and development and marketing under one board and one management team.

4.4 Reasons not to vote in favour of proposed Integration

Although the Integration is unanimously recommended by the AWS Directors and the Independent Expert believes the Integration is fair and reasonable to AWS Shareholders, AWS Shareholders should also consider reasons for not voting in favour of the Integration. Some factors which may lead AWS Shareholders to vote against the Integration are set out below. The AWS Directors believe that these factors are outweighed by the benefits that the Integration should deliver.

(a) You may not agree with the AWS Directors' recommendation and Independent Expert's conclusion

The AWS Directors have had regard to the considerations set out in Section 4.3, in recommending that AWS Shareholders vote in favour of the Integration. The Independent Expert has concluded that the Integration is fair and reasonable to AWS Shareholders. However, AWS Shareholders may hold a different view and are not obliged to follow the recommendation of AWS' Directors or agree with the conclusions of the Independent Expert.

(b) The Assets may obtain a higher price if sold on the open market

AWS' Assets, particularly the Woolmark certification trade mark, may achieve a higher price if sold on the open market.

However, consideration should be given to the risks associated with disposing of the Assets in this manner (refer to Section 4.3(c) for a discussion of those risks).

(c) Limited opportunity to benefit from further improvement in financial performance of Sportwool™

One of the key assets to be sold to AWI is the Sportwool™ trade mark and business. Sportwool™ is in the growth phase of its business cycle and it recorded a revenue growth rate of 73% in FY07. Following completion of the Integration, AWS Shareholders will not have the opportunity to the benefit of a further improvement in the financial performance of Sportwool™. In addition, the price that it may achieve by the sale of Sportwool™ in an open and competitive market may be greater than the price payable by AWI for Sportwool™ as part of the Assets.

(d) Change in nature of your investment

If the Integration proceeds, AWS will no longer carry on the business of Woolmark licensing and market intelligence. This will result in your AWS Shares having a different underlying business.

5. Overview of AWS

5.1 Background

AWS was formed in January 2001 as part of the privatisation of the former statutory marketing authority, the Australian Wool Research and Promotion Organisation (AWRAP).

Initially, AWS had two operating subsidiaries:

- (1) The Woolmark Company – which had responsibility for the commercial development of the Woolmark certification trade mark and its associated brands and trade marks, and the commercialisation of various pieces of intellectual property resulting from grower funded research; and
- (2) AWI - which managed the woolgrower research and development levy, received matching government funding and commissioned research and development.

AWS was established with \$57.3 million of capital from the former AWRAP, a relatively modest amount for a commercial entity aspiring to become a public company. AWS was required to spend \$20 million of this amount on research and development under an agreement with the Australian Government, leaving AWS with approximately \$37 million.

On 30 April 2002, AWI de-merged from AWS. Both were established with the same woolgrower shareholders. It was envisaged by the majority of shareholders that both companies would serve the needs of the Australian wool industry – AWI by investing in research and development and AWS by investing in and marketing the Woolmark certification trade mark and The Woolmark Company activities. Both aimed to improve the profitability of Australian woolgrowers.

On de-merger, AWI continued as a not-for-profit entity, receiving woolgrowers' levies and a Government contribution in order to fund its wool industry investment activities. In contrast, AWS was established as a commercial entity with responsibility for sustaining itself through the generation of its own income.

Problems with the de-merger structure emerged immediately. Wool marketing was presumed by the wool industry to be AWS' responsibility, however it has not been able to generate sufficient income to undertake wool marketing activities on behalf of the wool industry.

Certain legacy issues, including some whose significance at the time were not apparent, remained with AWS following its de-merger from AWI. The most substantial of those legacy issues was AWS' exposure to the IWS Pension Fund.

Since 2001, these issues have had a severely inhibiting impact on AWS' commercial activities by limiting its ability to re-invest in its core assets to enhance and maintain their value. The AWS Directors have therefore concluded that it is in the best interests of AWS Shareholders that the Assets be sold in order to limit any further erosion in value.

AWS' business model has proven unsustainable.

5.2 IWS Pension Fund issue

(a) Background

When AWS was created in 2001, the company assumed a number of legacy items. The most significant of those legacy items was the liability to the IWS Pension Fund.

IWS was established in 1937. IWS was the predecessor to AWRAP, AWS' predecessor entity. In the 1960s IWS had as many as 800 employees, most of whom were resident in the United Kingdom. The IWS Pension Fund was introduced for the benefit of those employees.

The IWS Pension Fund is a "Defined Benefit" plan. Beneficiaries receive an endowment based on years of service and terminating salary.

Regular assessments are made to establish the financial status of this Fund. The financial position is influenced by the age of members and their life expectancy, the conditions of the economy, such as interest rates, and on the investment skill and judgement of the Trustees acting on professional advice.

Any shortfall in the Fund under UK law becomes the responsibility of the employer.

At 1 January 2001, the commencement date of AWS, the actuarial assessment of the Fund indicated that the Fund was in balance.

At 31 May 2007 the Fund was in deficit to the order of A\$22.1 million²

Following a substantial decline in the UK equities market in 2001, the Trustees, acting on professional advice, transferred a substantial portion of their investment in shares to Government bonds. The Trustees have failed to gain the benefit of the increase in equities over the past five or so years.

The investment returns on cash have not kept pace with the increasing pension liability, despite AWS paying approximately A\$1 million per annum into the IWS Pension Fund over the past three years.

(b) Agreement with IWS Pension Fund Trustees

AWS has recently reached agreement with the IWS Pension Fund Trustees for the future management of the plan which crystallises AWS' ongoing exposure to the Fund.

Pursuant to that agreement, AWS has agreed to pay A\$13 million to the IWS Pension Fund, in three annual payments of A\$9 million, A\$2 million and A\$2 million in March 2008, March 2009 and March 2010 respectively. The proceeds received from AWI for the sale of the Assets will be contributed to these payments.

The Trustees may also receive a further payment if Andar Holdings and/or the Mumbai property are sold above a certain value. In broad terms the payment would be equal to 50% of the 'excess' of the net consideration received from the sale over the book value of each of those assets.

If either Andar Holdings or the Mumbai property are not sold by 1 January 2010, a third party will be appointed to estimate the market value of these assets. The Trustees would then receive (in broad terms) 50% of the 'excess' of the net market value over the book value of each unsold asset.

² Prior to the actuarial year end adjustments and the effects of the obligations of the agreement with the Trustees of the IWS Pension Fund

As an additional condition of the agreement with the Trustees, AWS will arrange for a reputable bank to extend to the Trustees an irrevocable letter of credit to guarantee these payments. The letter of credit will operate to the extent that AWS fails to comply with the terms of the repayment plan.

The Trustees have also agreed that upon implementation of the Integration (and providing the letter of credit is in place by that time) they will not have and will not make, any claim of any kind whatsoever against:

- the Australian Federal Government;
- AWI or its corporate group; or
- any other person,

other than AWS in connection with a breach of the provisions of the agreement.

(c) Clearance from UK Pensions Regulator

AWS has made an application seeking ongoing 'clearance' from the UK Pensions Regulator (Pensions Regulator) in relation to the Integration and to the terms of the repayment plan agreed with the Trustees. The effect of obtaining ongoing 'clearance' from the Pensions Regulator is, in general terms, that the Pensions Regulator is then prevented from issuing a future 'financial support direction'.

In the event that the Pensions Regulator issues clearance but not on-going clearance, there is a risk to AWS following Integration that the Pensions Regulator could issue a 'financial support direction' requiring AWS (or any other entity within the residual AWS Group) to repay some or all of the residual buy-out deficit in the IWS Pension Fund. This is currently estimated at around £32 million. However, the Pensions Regulator can only seek to do this if:

- Woolmark (Europe) fails to meet certain financial criteria and in the circumstances the Pensions Regulator considers it reasonable to claw back those funds from other companies within the AWS group;
- the circumstances at the date of application for clearance are not the same as those described in the application; or
- AWS or Woolmark (Europe) is in breach of the agreement with the IWS Pension Fund Trustees.

The AWS Directors have obtained UK legal advice in relation to this potential liability, and have been advised that the risk of the Pensions Regulator issuing such a 'financial support direction' (in the event that the application for ongoing clearance is not granted) in the present circumstances is low.

AWS will raise the funds necessary to provide the A\$13 million deposit with the bank out of the proceeds of the sale of the Assets to AWI, as well as from surplus cash which will remain in AWS following Integration.

5.3 Business Overview

AWS currently owns the following assets:

(a) Real property

AWS through its subsidiary Woolmark Services India Private Limited owns a small business premises situated in Mumbai, India. This is currently leased to Swissair.

(b) Intellectual property

- The Woolmark certification trade mark and its associated brands and trade marks.

- Optim™ - a technology which creates a new wool fibre which has many of wool's natural attributes, whilst benefiting from new, enhanced properties. This technology was developed as a result of a joint research and development initiative between AWS' predecessor and CSIRO. The Optim™ patents and trade marks are jointly owned by CSIRO and AWS, and AWS has an exclusive licence to exploit this intellectual property.
- Sportwool™ – a fabric technology possessing key technical performance benefits with application to the active leisure and sportswear market.
- Woolscience™ – a fabric technology possessing key technical performance benefits suited to military, industrial, medical, workwear, bedding, transport and equestrian end uses.
- Woolfleece™ – an unregistered trade mark for a blend of merino wool and polyester fibre which provides natural comfort for high performance activewear.

(c) Businesses

(1) Woolmark licensing

Woolmark licensing is responsible for the management and development of the Woolmark certification trade mark and its associated brands and trade marks. There are approximately 2,400 global Woolmark licensees split between apparel related licensees (80%) and home products related licensees (20%).

(2) Sportwool™ / Woolscience™

The Sportwool™ fabric technology was developed in the late 1990s as a component of a strategy to broaden the use of wool into the active performance apparel market. Sportwool™ is licensed to customers such as Adidas, Salomon, and Mammut and is sold in the USA, Europe, Japan, Australia, China and Korea. The Sportwool™ trade secret is used in 2 key products: Sportwool™ (active/leisure) and Woolscience™ (industrial wear).

(3) Andar Holdings

Andar Holdings is a New Zealand based wool processing and industrial machinery manufacturing, sales and distribution company.

(4) Market intelligence

The Woolmark Market Intelligence business is the leading provider of global wool industry market intelligence, from fibre to retail, providing a comprehensive statistical database and analysis service on the wool sector. Developed by a global network of market analysts, the AWS Group's market intelligence provides a constant source of information on the latest trends and business conditions, forecasts and technical insights and also offers consultancy services and tailored research studies to its clients at every part of the wool pipeline, all around the world.

(5) Other activities and businesses include:

- **Product marketing**

The product marketing function acts to commercialise the results of product development activities.

- **Technical services**

The technical services business is a consulting support business which provides technical support to manufacturers in the global wool pipeline.

- **International Wool Secretariat**

The International Wool Secretariat is a dormant, unincorporated business containing minor legacy issues, predominantly tax matters.

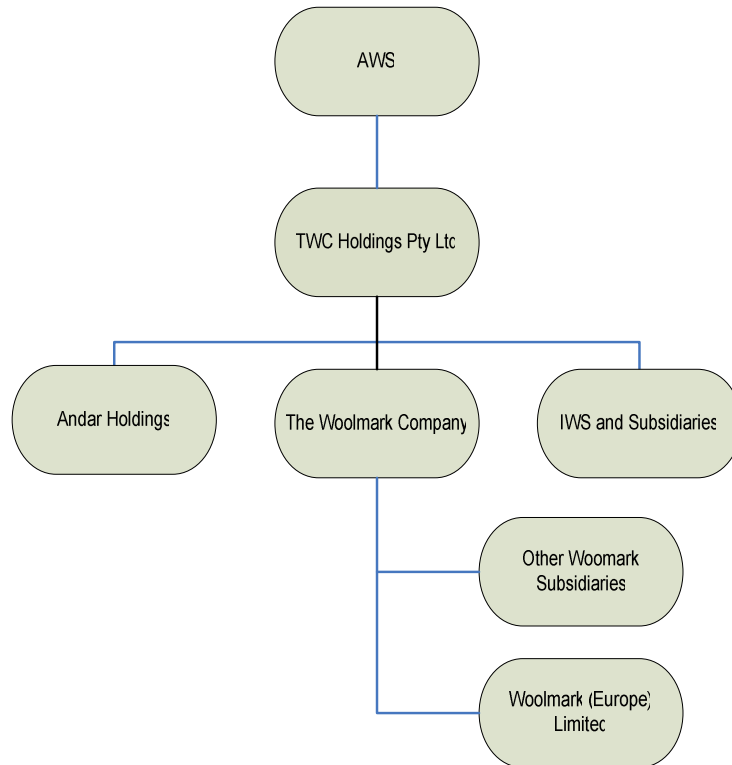
- **Woolmark Development International Limited**

The assets of Woolmark Development International Limited which are in the process of being sold by AWS. This company will become dormant and ultimately wound up.

5.4 AWS group structure

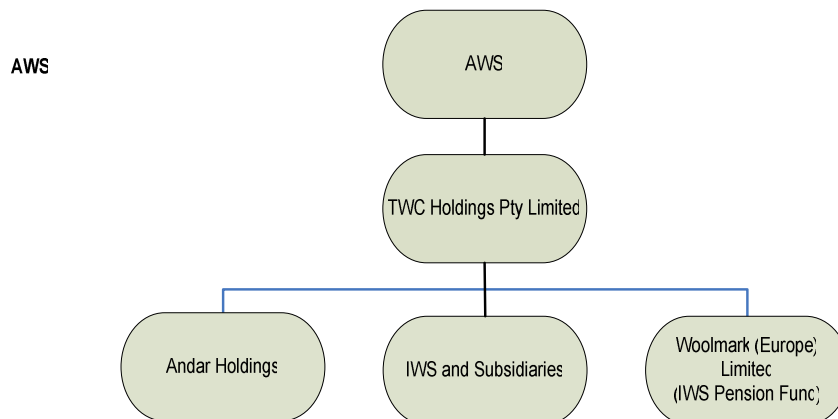
(a) Current structure

The current corporate structure of AWS is as follows:



(b) Structure following Integration

Following the Integration, the corporate structure of AWS will be as follows (this corporate structure does not include all companies within the AWS Group):



5.5 AWS historical financial information

Since its formation in 2001, AWS' financial performance has been as follows:

	2001 ^{1/2}	2001/02 ²	2002/03	2003/04	2004/05 ⁴	2005/06 ³	YTD May07 ⁵
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
Revenue	24,792	46,266	52,163	45,147	52,230	39,013	31,386
Net Profit/(Loss) attributable to members of AWS	(10,271)	(190)	(7,421)	(6,529)	1,949	(316)	(2,085)
Cash	62,051	59,660	45,291	38,335	32,286	26,815	21,073
Net Assets	47,063	46,873	40,083	5,435 ⁴	7,431	5,915	4,093

¹ 2001 year covered six months only from AWS' formation on 1 January to financial year-end on 30 June.

² AWI was part of AWS in 2001 and part of 2002 (de-merged 30 April 2002) so the revenue, net loss, cash and net assets disclosed excludes AWI.

³ Australian International Financial Reporting Standards (AIFRS) were adopted for the first time in 2005/06 financial year.

⁴ The 2005/06 results were restated to comply with AIFRS. Upon implementation of AIFRS, any adjustments were adjusted against the net assets as at 30 June 2004. The major impact being the mandatory recognition of the IWS Pension Fund deficit of A\$26 million as a liability, severely deteriorating the net asset position.

⁵ The YTD May07 results are based on management accounts, which do not take into account year end adjustments and have not been audited or reviewed in accordance with auditing standards.

The above table highlights a steady deterioration in AWS' financial position as measured by four key indicators.

Having undertaken a number of cost reduction and revenue generating initiatives, AWS has improved its financial performance in preceding years. Despite this, it cannot sustain a profit and its cash and net asset positions continue to deteriorate. Nor can it invest in and develop its existing assets such as the Woolmark certification trade mark. Revenues are generally reducing (as are margins) and AWS does not have the financial reserves to start up or buy new businesses that are able to generate profits to alleviate this decline.

5.6 Risks relating to AWS' business

The following risks relate to AWS' business. AWS' business model has proved unsustainable for a number of reasons:

- (1) It has been unable to generate sufficient income to undertake wool marketing activities on behalf of the wool industry.
- (2) Recent major structural changes occurring within the global wool textile industry, especially the rapid relocation of the wool textile industry from the traditional countries of Western Europe and Japan to Eastern Europe, China and elsewhere in Asia, together with a general down-sizing of the global industry has meant a decline in the number of licensees and business in the

traditional countries, without the equivalent increase in the developing countries of the world.

- (3) These structural changes have been compounded by short term impacts on wool textile demand and confidence as a result of major unexpected events such as the September 11, 2001 attacks in New York and other terrorist activity, SARS in Asia, continued tough economic conditions in major retail markets of Western Europe and Japan and the Australian drought.

5.7 Business of AWS following Integration

(a) AWS assets following Integration

- (1) AWS will be left with the following assets upon Integration:
- Cash estimated at by the AWS Directors at approximately A\$23.4 million.
 - Woolmark (Europe).
 - Andar Holdings.
 - Woolmark Development International Limited.
 - International Wool Secretariat.
 - Certain other residual assets and liabilities relating to foreign tax and foreign employee disability entitlements.
- (2) The business premises in Mumbai, India will remain under the ownership of Woolmark Services India Private Limited following Integration. As a subsidiary of The Woolmark Company, Woolmark Services India Private Limited will be indirectly owned and controlled by AWI.

However, it has been agreed between AWS and AWI that they will negotiate a property management services agreement pursuant to which AWS will manage the property following Integration. The agreement will provide, among other things, that AWS will be responsible on behalf of AWI for:

- the collection and banking of rent, outgoings and other income in respect of the property;
- the letting of the property and the liaison and negotiation with and management of tenants;
- the payment of all expenses in connection with the property;
- the marketing of the property for sale, the timing of the sale, negotiations with purchasers and agents and the signing of the contract for sale as attorney for AWI; and
- the receipt of the net proceeds of sale.

(b) General

If Integration is approved, AWS will continue to trade for the principal purpose of managing its liability to the IWS Pension Fund. AWS will pay A\$13 million to the IWS Pension Fund in three payments of A\$9 million, A\$2 million and A\$2 million in March 2008, March 2009 and March 2010 respectively. Refer to Section 5.2 for a more detailed description of this arrangement.

The AWS Directors also intend to sell Andar Holdings and to resolve the tax issues associated with IWS. It is also intended that AWS will exercise its rights under the property management services agreement to procure the sale of the Mumbai property.

The funds realised through the disposal of the Assets and Andar Holdings (together with AWS' share of the funds received for the Mumbai property in the event the property is sold) will be reinvested for the benefit of AWS Shareholders. The AWS Directors intend to develop a strict investment policy with respect to its cash reserves which will be aimed at maximising the return to AWS Shareholders while maintaining an acceptable level of risk.

The AWS Directors intend to liquidate Woolmark Development International Limited shortly after Integration. AWS will also take steps to wind up or liquidate the following dormant subsidiaries of IWS:

- International Wool Secretariat S.A. De C.V. (Mexico);
- Secretariado Internacional De La Lana S.A. (Mexico); and
- Woolmark Americas Ltd (Canada)

in their respective jurisdictions.

Once its obligations to the IWS Pension Fund have been met (which is expected to be in or around March 2012), and Andar Holdings and the Mumbai property have been sold, it is expected that the residual AWS Group will be wound up and its surplus assets distributed to AWS Shareholders, subject to AWS Shareholder approval.

(c) IWS Pension Fund

The IWS Pension Fund liability attaches to Woolmark (Europe). The shares in Woolmark (Europe) are currently held by The Woolmark Company, and will be transferred to AWS if the Integration is approved. This way, the IWS Pension Fund liability will be quarantined within AWS. AWS will then proceed to reduce its liability to the Fund in accordance with the agreed payment plan.

(d) Board of AWS

AWS will continue to be managed by a Board comprising four directors.

The Trustees of the IWS Pension Fund will be entitled to nominate a director for appointment to the Board of AWS following Integration. The AWS Directors will recommend the nominee director be formally appointed to the Board at AWS' next Annual General Meeting.

The AWS Directors also intend to reduce the current fees payable to the Directors by one-third to reflect the reduced day-to-day operations of AWS.

(e) Day-to-day operations

The day-to-day operations of AWS, such as maintaining its register, producing annual accounts, monitoring investment performance and dealing with the remaining assets will be conducted by a small secretariat.

(f) Employees

AWS will fund employee redundancies and closure costs associated with the various overseas offices once AWI's and AWS' resources have been consolidated. AWS has made provision for these costs, which the AWS Directors estimate will be in the vicinity of \$5 million.

5.8 AWS financial information following Integration

A copy of the pro forma balance sheet post-Integration for AWS based on Shareholders' funds as at 31 May 2007 is contained in Appendix III.

6. Implementation of Integration

6.1 Steps to implement Integration

The steps to implement the Integration are set out below:

- (a) On 27 July 2006 AWS and AWI entered into a Memorandum of Understanding pursuant to which the companies undertook to take steps to integrate the business of AWS into AWI's existing business.
- (b) On 18 April 2007, the Australian Minister for Agriculture, Fisheries and Forestry, The Hon Peter McGauran MP, gave notice of the Government's approval to fund the purchase of the Assets by AWI.
- (c) On 15 June 2007, the Commonwealth of Australia (represented by the Department of Agriculture, Fisheries and Forestry) and AWI entered into a Funding Deed pursuant to which the Commonwealth formally agreed to provide the \$15 million (GST exclusive) to AWI for the purpose of acquiring the Assets.
- (d) An Agreement dated 31 July 2007 between AWS and Woolmark (Europe) has been executed with the Trustees of the IWS Pension Fund (**Agreement**). Pursuant to this Agreement, AWS' liability to the IWS Pension Fund was crystallised and it agreed to pay A\$13 million to the IWS Pension Fund in three payments of A\$9 million, A\$2 million and A\$2 million in March 2008, March 2009 and March 2010 respectively.

Pursuant to the Agreement, AWS also agreed to make a further payment to the Trustees in the event that Andar Holdings and/or the Mumbai property are sold. In broad terms, the payment would be equal to 50% of the 'excess' of the net consideration received from the sale over the book value of each of those assets.

If either Andar Holdings or the Mumbai Property are not sold by 1 January 2010, a third party will be appointed to estimate the market value of these assets. The Trustees would then receive (in broad terms) 50% of the 'excess' of the net market value over the book value of each unsold asset.

The bank will also provide an irrevocable letter of credit in favour of the Trustees to guarantee AWS' obligations in respect of these payments.

- (e) On 31 July 2007, AWS and its wholly owned subsidiary TWC Holdings Pty Ltd entered into a Share Sale and Purchase Agreement with AWI and its wholly-owned subsidiary Woolmark Holdings, pursuant to which it was agreed that the Assets would be transferred to Woolmark Holdings for the purchase price of \$15 million, plus the book value of the net tangible assets purchased by AWI less a 'redundancy allowance', agreed by the parties at \$5 million. AWI also agreed to pay to AWS \$250,000 to allow AWS to make good various leased properties.
- (f) AWS will hold a General Meeting of its shareholders on 28 August 2007 at which AWS Shareholders will be asked to approve the Integration.
- (g) Provided that the AWS Shareholders approve the Integration at the General Meeting, the anticipated date for completion of the Integration is 1 September 2007. Upon completion:
 - AWS will procure the transfer by its wholly-owned subsidiary, TWC Holdings Pty Ltd, of its 100% interest in the shares of The Woolmark Company Pty Ltd to AWI's wholly-owned subsidiary, Woolmark Holdings;
 - AWS will procure the transfer of its OptimTM technology business and associated assets to AWI; and
 - AWI will pay AWS the purchase consideration.

- (h) The Integration will not become effective if the conditions precedent contained in the Share Sale and Purchase Agreement are not satisfied or waived. Those conditions precedent are listed in Section 6.2(b) of this Explanatory Statement.

6.2 Share Sale and Purchase Agreement

(a) General

The detailed terms and conditions upon which the sale is to occur are contained in the Share Sale and Purchase Agreement.

The Share Sale and Purchase Agreement provides that the purchase price payable by AWI for the Assets will be A\$15 million:

- (1) plus an amount, which may be positive or negative, by which the value of the net tangible assets of The Woolmark Company and its subsidiaries on a consolidated basis as shown in the completion accounts is greater or less than nil;
- (2) less a redundancy allowance of \$5 million;
- (3) plus an additional amount of \$250,000 as a 'make good allowance' in respect of the expected cost to AWS of making good certain leased premises.

The Share Sale and Purchase Agreement also contains warranties given by AWS in favour of AWI in relation to the Assets. The warranties relate to such matters as AWS' title to the Assets, the state of its corporate records, its financial position and various taxation matters.

The Explanatory Statement provides a general summary of the other main terms upon which AWS has agreed to sell the Assets to AWI.

The Share Sale and Purchase Agreement also contains various conditions which must be satisfied before the Integration can proceed. A summary of these conditions are set out in section 6.2(b) below.

(b) Conditions precedent

The Integration will not proceed unless the following conditions precedent contained in the Share Sale and Purchase Agreement have been or are satisfied or waived by 30 September 2007 or such other date as may be agreed in writing:

- (1) AWS Shareholders must approve the sale of the Assets to AWI by the Requisite Majority at the General Meeting;
- (2) In relation to the IWS Pension Fund, AWS:
 - must execute the Agreement with the Trustees; and
 - obtain the requisite clearance from the UK Pension Fund Regulator.
- (3) The Australian Federal Minister for Agriculture, Fisheries and Forestry must pay the sum of \$15 million to AWI to fund the acquisition of the Assets;
- (4) The Australian Tax Office must confirm that AWI will retain its status as a tax exempt entity following the Integration;
- (5) The Australian Competition and Consumer Commission must consent under section 180 of the Trade Marks Act 1995 (Cth) to the assignment by The Woolmark Company of the registered certification marks to Woolmark Holdings;
- (6) AWI must complete, to its satisfaction, due diligence in relation to the tax affairs of AWS and its subsidiaries;
- (7) CSIRO must grant to AWS or The Woolmark Company consent to the transfer or novation of all relevant license agreements, trade marks and patents which are owned by CSIRO or to which CSIRO is a party; and

- (8) AWS and The Woolmark Company are also required to take certain other steps prior to completion, including:
- transferring all of the assets of Woolmark (Europe) (other than the liabilities attaching to Woolmark (Europe) in connection with the IWS Pension Fund and certain disability pension liabilities in Germany) to AWI, or to a UK-incorporated subsidiary of AWI;
 - changing the name of Woolmark (Europe) to a name which does not include the words 'wool', 'merino' or any derivation of them; and
 - negotiating a property management agreement with AWI in respect of the Mumbai property, whereby AWS agrees to manage the Mumbai property on behalf of AWI.

The AWS Board expects that these conditions can be satisfied.

Glossary

The following defined terms used throughout this Explanatory Statement have the meaning set out below unless the context otherwise requires:

Andar Holdings means Andar Holdings Limited, a company registered in New Zealand having Company Number 470840, and its subsidiaries.

Assets means all of the shares in The Woolmark Company, which owns the majority of AWS' assets, including the Woolmark certification trade mark and associated brands and trade marks, the Sportwool™, and Woolscience™ technology businesses, trade marks and associated brands, the Woolfleece™ unregistered trade mark and associated brands, the Woolmark licensing business and the market intelligence business), the Optim™ trade mark and technology business and various other working assets of AWS and its subsidiaries including stock and plant and equipment.

AWI means Australian Wool Innovation Limited (ABN 12 095 165 558).

AWS means Australian Wool Services Limited (ABN 29 095 401 200).

AWS Group means AWS and its subsidiaries.

AWS Directors or **AWS Board** means the board of directors of AWS.

AWS Share means a fully paid ordinary share in the capital of AWS.

AWS Shareholder means a holder of AWS Shares.

Independent Expert means Grant Thornton Corporate (NSW) Pty Ltd.

Integration means the Integration of AWS' business with the business of AWI, through the purchase by AWI from AWS of the Assets in accordance with the terms of the Share Sale and Purchase Agreement.

IWS means the International Wool Secretariat and its subsidiaries.

IWS Pension Fund means the International Wool Secretariat Retirement Benefits Plan established by a trust deed dated 15 December 1960 in respect of (mainly) former employees of AWS' predecessor organisation, the International Wool Secretariat.

Requisite Majority means in relation to the resolution to be put to the General Meeting, a resolution passed by a majority in number (more than 50 per cent) of AWS Shareholders who are present and voting, either in person or by proxy, attorney or, in the case of a corporation, its duly appointed corporate representative.

Share Sale and Purchase Agreement means the agreement dated 31 July 2007 between AWS, TWC Holdings Pty Ltd, AWI and Woolmark Holdings pursuant to which AWI, through its wholly-owned subsidiary Woolmark Holdings, agreed to acquire the Assets from AWS.

The Woolmark Company means The Woolmark Company Pty Ltd (ABN 30 067 866 657).

Trustees means the trustees of the IWS Pension Fund

Woolmark (Europe) means Woolmark (Europe) Limited, a company registered in England.

Woolmark Holdings means Woolmark Holdings Pty Limited (ACN 124 181 906).

Appendix I

Independent Expert's Report

Report from Grant Thornton Corporate (NSW) Pty Ltd.

Our legal advisors have recommended that we provide you with the full Independent Expert's Report. The Independent Expert's Report contains a summary on pages 1 to 8 inclusive.

Appendix II

Notice of General Meeting

AUSTRALIAN WOOL SERVICES LIMITED (“Company”)

ABN 29 095 401 200

Notice of General Meeting

Notice is given to the members of Australian Wool Services Limited that a general meeting of the Company will be held at the Treacy Conference Centre, 126 The Avenue, Parkville, Melbourne, Victoria, on Tuesday 28 August, 2007 at 10.30 am (Melbourne time).

The purpose of the meeting is to consider, and if thought fit, to pass the resolution referred to in this Notice.

Terms used in this Notice have the same meaning as set out in the Glossary to the Explanatory Statement which accompanies this Notice (unless the context otherwise requires).

To enable you to make an informed decision, further information on the proposed sale of Assets the subject of the below resolution is set out in the Explanatory Statement.

BUSINESS

Resolution: Approval of the sale of the Assets

“That the shareholders of the Company:

- (a)** *approve the sale of the Company’s Assets to AWI in order to integrate AWS’ core business with the business of AWI; and*
- (b)** *authorise the directors of the Company to do all acts and take all steps necessary in order to implement and give effect to the transfer of the Company’s Assets to AWI,*

as more particularly described in the Explanatory Statement accompanying this Notice of Meeting.”

By Order of the Board



Peter J J McKeown

Company Secretary

3 August 2007

Notes

Determination of member's rights to vote

The board has determined, in accordance with the Company's Constitution and the Corporations Regulations 2001, that for the purposes of the General Meeting, shares will be taken to be held by the persons who are the registered holders at **10:30am on 28 August 2007**. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Required majority

As an ordinary resolution, the Resolution must be approved by a majority of shareholders present at the meeting (either in proxy or in person) and entitled to vote.

Proxies

A member entitled to attend and vote at the meeting is entitled to appoint a proxy. A member entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the member's votes. If a member appoints two proxies, neither proxy may vote on a show of hands. A proxy need not be a member of the Company. A form of proxy is provided with this notice.

If a member appoints a body corporate as a proxy, that body corporate will need to ensure that it:

- appoints an individual as its corporate representative to exercise its powers at the meeting, in accordance with section 250D of the Corporations Act 2001 (the Act); and
- provides satisfactory evidence of the appointment of its corporate representative prior to commencement of the meeting.

If such evidence is not received prior to the commencement of the meeting, then the body corporate proxy (through its representative) will not be permitted to act as the member's proxy.

The chair of the meeting intends to vote undirected proxies in favour of the resolution. The Company encourages all shareholders who submit proxies to direct their proxy how to vote on the resolution.

Corporate representatives

A corporation may elect to appoint a representative in accordance with the Act in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the meeting.

Lodging your proxy form

To be effective, the completed and signed proxy form (together with any power of attorney or other authority under which the appointment was signed or a certified copy of the authority) must be returned to the Company's share registry, Link Market Services Limited no later than **10:30am on 26 August 2007**. You can lodge your completed proxy form, letter of representation or power of attorney:

In person to:	By mail to:	By facsimile to:
Level 12, 680 George Street	Locked BAG A14,	(02) 9287 0309
Sydney NSW 2000	Sydney South NSW 1235	
Australia	Australia	

Appendix III

AWS - Pro Forma Balance Sheet (post Integration)

	\$'000	\$'000
Assets		
Cash	23,400	
Other assets - as below	<u>12,340</u>	35,740
Liabilities		
IWS Pension Liability		<u>(13,000)</u>
Net Assets / Shareholder Funds		<u>22,740</u>

	\$'000	\$'000	\$'000
Shareholder Funds - May 2007			4,093
IWS Pension Fund			
Current Liability			<u>22,147</u>
AWS Assets			26,240
Net Consideration for sale of AWS Intangible Assets			
Consideration for AWS Assets		15,000	
Costs of integration		(750)	
Redundancy allowance		(5,000)	
Make good allowance		<u>250</u>	9,500
IWS Pension Fund			
Payment agreed with Trustees			<u>(13,000)</u>
AWS Adjusted Shareholders' Funds			<u>22,740</u>
<i>Represented by:</i>			
• In Kind			
Andar Holdings		7,102	
Mumbai Property		3,598	
IWS India - Tax refunds		820	
IWS France - Paris Tax		238	
Woolmark Development International Ltd		1,287	
German continuous disability		<u>(705)</u>	12,340
• Cash			
Net Consideration for sale of AWS Intangible Assets		9,500	
Proceeds for sale of AWS Assets			
- Value of AWS Assets	26,240		
- Less amount taken in kind above	<u>(12,340)</u>	13,900	23,400
• Liabilities			
IWS Pension Fund		<u>(13,000)</u>	<u>(13,000)</u>
Total Net Assets			<u>22,740</u>