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26 Ayr St
Ascot Vale
Victoria 3032
12 June 2002

CONFIDENTIAL

Ms Maree McCaskill
Chair,
Australian Wool Innovation Ltd

Dear Chair

Please accept this letter as formal notification of my resignation as a Director of Australian Wool Innovation Ltd, effective from 14 June 2002

As you know, I have committed myself personally and professionally to the Australian wool industry and its future. However, after considering the divergence between some recent board actions and my understanding of the accepted principles of corporate governance that shareholders should reasonably expect from AWI, I have decided that resignation is the only proper course of action for me to take. I have long supported the Millstein view that good corporate governance is essential to good corporate performance.

I am taking the opportunity to let you know the reasoning behind my decision. From board discussions, you will be aware of the details of some of the recent issues that have concerned me, but in summary they include:

1. The recent review of the Managing Director's performance was conducted in the absence of any normal measures of performance, such as agreed key performance indicators. In my view, the difficulty in assessing performance was further amplified by the repetitive provision of inaccurate and incorrect information to the Board on the nature of the Managing Director's remuneration package, such as the maximum cap on the bonus, and an operating environment at the board level in which constructive criticism of performance was, in the end, aggressively discouraged. I had envisaged my role as a director as being able to provide independent, transparent and honest advice in the interests of all stakeholders, including shareholders. Transparency, accountability and proper process are fundamental to good corporate governance.

2. The decision of the board to reject a process to correct a clear potential serious error that occurred in the mechanics of the last AWS Annual General Meeting, in

which there was a failure to record the retirement and re-appointment of myself and Ms Murphy from AWI at the same time as our retirement and re-appointment to the AWS board was recorded. Legal opinion showed that this error could easily be fixed, but the board voted against pursuing this path. In my view, the effect of that decision has been to turn the last AGM into a sham, since it now appears that, despite myself and Ms Murphy standing for re-election, our AWI directorships were never at risk. This is in complete conflict with everyone's understanding of the purpose of that election process at the time, and in my opinion, has seriously undermined the rights of shareholders.

3. Following the resignation of Mr Patten from AWI, the board of AWI had no opportunity to submit a collective view on the mix of board skills and experience necessary for the efficient and effective conduct of the board. Rather, after private discussions between yourself and Mr Price, on the day that Mr Patten's resignation was received, a teleconference board meeting was held to ratify Mr Nelson as the new AWI board member. Again, this is a clear and fundamental departure from best practice corporate governance and the **responsibility** of directors to help ensure the best possible candidates with the most diverse ranges of skills and talents are recruited to the board.

There are, as you are well aware, other issues but those outlined above are the most important to my decision.

Let me emphasise that my decision to resign is not based on a personal reaction to the board failing to agree with my views on certain matters. As a director on numerous boards, I am well aware that board decisions are collective and, that after proper and constructive debate in the interests of all stakeholders individual directors need to stick by collective decisions even when they may have personally opposed them. Rather, my decision to resign is based on my belief that certain fundamental principles of corporate governance and proper process have been breached or ignored by the company.

This letter has been written to you on a confidential basis. At this stage, I do not intend that this letter be made public. I would be grateful if you would consult me prior to any public comment being made about my resignation either by you or on behalf of the board or management.

I have also reviewed the draft minutes of the board meeting of 18 April 2002, as attached. Could you please record that in my opinion they are a true record of the business of the meeting held on that day and in particular section 18 (Election of Directors) accurately reflects the board's discussion and accords with the notes taken by myself at that time. Should, however, the board amend this section, I request that it be noted in the minutes that I considered the draft minutes to be a correct record of that matter. I would also appreciate if you could forward me a copy of the confirmed minutes of the meeting of 18 April 2002, together with a copy of the form 304 as lodged with ASIC.

Finally, my great hope is that my decision and the earlier resignation of Mr Patten from the board of AWI, send clear signals to you, your fellow directors and the senior

executives of the company of the need to adhere to a set of clear and unambiguous guidelines on corporate governance in the interests of all stakeholders.

Yours sincerely,

Associate Professor Andrew Vizard