Grant Thornton Corporate Finance

Grant Thornton

The Board of Directors
Australian Wool Services Limited
Wool House
369 Royal Parade
PARKVILLE VIC 3052

1 August 2007

Dear Sirs,

AUSTRALIAN WOOL SERVICES LIMITED
INDEPENDENT EXPERT'S REPORT

INTRODUCTION

The Directors of Australian Wool Services Limited ("AWS" or "the Company") have requested Grant Thornton Corporate (NSW) Pty Ltd ("Grant Thornton Corporate Finance") to prepare an independent expert's report ("Report") as to whether the proposed sale of The Woolmark Company Pty Limited ("The Woolmark Company") to Australian Wool Innovation Limited ("AWI") ("the Transaction") is fair and reasonable to the shareholders of the AWS. AWS indirectly controls 100% of the issued capital of The Woolmark Company.

BACKGROUND AND THE TRANSACTION

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") comprising of The Woolmark Company and AWI.

On 30 April 2002, AWI de-merged from AWS and continued as a not-for-profit organisation, whilst AWS was established as a commercial entity charged with responsibility for sustaining itself through its activities. The majority of shareholders of AWS and AWI are common to both AWS and AWI.

On 27 July 2006 AWS and AWI entered into a Memorandum of Understanding ("MOU") pursuant to which the companies undertook to take steps to integrate the business of AWS into AWI's existing business.

As a result of this MOU, on 31 July 2007, AWS entered into a share sale and purchase agreement with AWI ("SSPA") for the sale to AWI of all the issued capital of The Woolmark Company which will comprise of the following assets (collectively referred to as "Key Assets") on completion of the Transaction:

- the Woolmark certification trade mark together with all associated brands and sub trade marks and registrations of those certification trade marks in all jurisdictions;

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- the Sportwool ™ together with all associated brands and sub trade marks and registrations of those trade marks in all jurisdictions;

- the Optim ™ together with all associated patents, brands and sub trade marks and registrations of those patents and trade marks in all jurisdictions;

- the Woolmark Licensing Business; and

- the Market Intelligence Business (refer to section 4.3 of this Report for further details).

In accordance with the SSPA, AWS is required to execute a number of pre-completion transactions in connection with the assets and liabilities of The Woolmark Company.

As set out in the SSPA, AWI will pay a total consideration equal to $15 million plus the book value of net tangible assets ("NTA") purchased by AWI minus a "redundancy allowance", agreed by the parties at $5 million, plus a "make good allowance" equal to $0.25 million (referred to as the "Total Consideration").

The SSPA contains a number of conditions precedent including:

- passing of the Resolution as set out in the Notice of General Meeting and Explanatory Statement at the General Meeting to approve the sale of The Woolmark Company to AWI; and

- the completion of the agreement with the IWS Pension Fund Trustees regarding the IWS Retirements Benefits Plan liability as discussed below.

If the Transaction is completed, AWS will retain the following:

- Cash estimated by the AWS Directors at approximately $25.3 million assuming the transaction is completed at May 2007;

- The ownership of Andar Holdings Ltd ("Andar Holdings"), which is a wool processing and equipment manufacturing company;

- The entitlements to the rental yield and sale proceeds of a property in Mumbai, India ("Mumbai Property"); and

- The ownership of Woolmark (Europe) Limited ("Woolmark Europe") which retains the IWS Retirements Benefits Plan liability. As discussed in section 5.2 of the SSPA, the IWS Retirement Benefits Plan ("IWS Pension Fund") is a defined benefit plan for the employees of Woolmark Europe. Under UK law, any shortfall in the fund becomes the responsibility of the employer. At 31 May 2007, the IWS Pension Fund had a deficit of $22.1 million (prior to actuarial adjustments for year end and the effect of the obligations of the agreement with IWS Pension Fund Trustees).

As set out in section 5.2 of the Explanatory Statement, AWS has recently reached an agreement with the IWS Pension Fund Trustees for the future management of the plan. The IWS Pension Fund Trustees have agreed that the IWS Pension Fund deficit will be satisfied by three annual payments in 2008, 2009 and 2010 totalling $13 million. In addition, the IWS Pension Fund Trustees will receive further payments after 1 January 2010 equal to 50 per cent of any net proceeds above book value from the sale of the Andar Holdings and Mumbai Property. Refer to section 5.2 (b) of the Explanatory Statement for further details.
The agreement with the UK Pension Fund Trustees is contingent upon completion of the Transaction.

PURPOSE OF REPORT

Grant Thornton Corporate Finance has been engaged by the Directors of AWS to provide an independent expert's report stating whether, in its opinion, the Transaction is fair and reasonable to shareholders of AWS.

An independent expert's report is not required to accompany the Notice of General Meeting and Explanatory Statement under the Corporations Act. However, the Directors of the Company have commissioned this independent expert report to assist them in their duties to provide shareholders with full and proper disclosure to enable them to assess the merits of the Transaction.

Our Report is to be read in conjunction with the Notice of General Meeting and Explanatory Statement dated on or around 3 August 2007 in which this Report is included, and is prepared for the exclusive purpose of assisting the shareholders of AWS in their consideration of the Transaction. This Report should not be used for any other purpose.

SUMMARY OF OPINION

In forming our opinion as to whether the Transaction is fair and reasonable to the shareholders of AWS we have compared:

- the assessed value of The Woolmark Company, having regard to the assets and liabilities of The Woolmark Company as at 31 May 2007 and the terms and conditions set out in the SSPA; and

- the Total Consideration.

We have considered the quantitative factors in our assessment of the "fairness" of the Transaction in section 6 of this Report. These considerations should be read in conjunction with our comments on the qualitative aspects or "reasonableness" of the Transaction set out in section 7 of this Report.

Quantitative assessment "fairness"

In our assessment of the fairness of the Transaction, we have assessed the value of The Woolmark Company on a control basis having regard to a discounted cash flow methodology. In our valuation assessment, we have applied a control premium equal to 15%.

As set out in the SSPA, the Total Consideration payable by AWI to AWS is as follows:

- $15 million being the agreed value of the Key Assets;
- plus the book value of NTA as set out in the Completions Accounts (figure 13 of this Report). We have been provided with a pro-forma balance sheet of the Completion Accounts as at May 2007 which indicates NTA of $nil;
- minus a redundancy allowance of $5 million to fund staff redundancies and office closure costs following completion of the Transaction; and
- plus $0.25 million as property make good allowance. We note the make good allowance has not been included in our assessment of the Total Consideration given that AWS will be required to incur these costs in the future.

Accordingly, Grant Thornton Corporate Finance have assessed the Total Consideration at $10 million.

Based on discussions with Management of the Company, Grant Thornton Corporate Finance has assessed the potential annual cost savings that may arise from these one-off redundancies expenses. Based on the terms of the SSPA, the value of these potential annual cost savings will be passed completely to AWI, given that the $5 million redundancies allowance is deducted from the agreed value of the Key Assets.

In order to normalise this one-off payment in our valuation assessment, we have conducted our assessment of The Woolmark Company on a stand alone basis as set out below:

- Included the assessed value of these annual cost savings in our assessment of the free cash flows of The Woolmark Company on a stand alone basis;
- Deducted the $5 million redundancy allowance from our assessment of the enterprise value of The Woolmark Company;
- Added back to the Total Consideration paid by AWI (i.e. $10 million) this one-off redundancy expenses of $5.0 million.

Based on the discussions set out above, in our assessment of the fairness of the Transaction, we have had regard to an Adjusted Net Total Consideration equal to $14.475 million assessed as $15 million less the after tax transaction expenses incurred by AWS equal to $0.525 million (i.e. $0.75 million pre-tax).

We set out below a comparison between our assessment of The Woolmark Company on a control basis and the Adjusted Net Total Consideration.

Figure 1: Valuation summary of The Woolmark Company

	Low $'000s	High $'000s
Controlling equity value of The Woolmark Company	12,622	14,886
Adjusted Net Total Consideration (1)	14,475	14,475
Premium / (difference)	1,853	(411)
Variance	15%	-3%

Grant Thornton Corporate Finance Calculations

(1) The Total Consideration of $15 million has been reduced by the after tax transaction expenses assessed by the Management of the Company at $0.525 million.

Grant Thornton Corporate Finance has assessed the controlling equity value of The Woolmark Company between $12.6 million and $14.9 million. Our assessment of the controlling equity value is inclusive of a control premium of 15%

The Adjusted Net Total Consideration of $14.5 million falls within the assessed valuation range of The Woolmark Company. We note that any consideration above $12.6 million represents a fair value for the acquisition of The Woolmark Company.

Accordingly, in the opinion of Grant Thornton Corporate Finance, the Transaction is fair to the shareholders of AWS.

As the Transaction contains elements which we believe impact both qualitative and quantitative factors, we recommend the shareholders of AWS carefully consider the quantitative considerations in conjunction with the qualitative considerations set out below and detailed in section 7 of this Report.

We note these assessment considerations include an examination of an appropriate premium for control.

Qualitative assessment "reasonableness"

In respect of the Transaction, we set out below a summary of the advantages and disadvantages to the shareholders of AWS. These qualitative factors should be considered in conjunction with the quantitative factors discussed above.

Advantages

- The financial performance of The Woolmark Company has deteriorated materially over the past six years as set out in section 5.5 of the Explanatory Statement. If the Transaction is not approved, the financial performance of The Woolmark Company may deteriorate even further and it may affect the ability of the Company to sell its operating assets at market value and on a going concern basis;

- As set out in the SSPA, the Total Consideration payable by AWI to AWS is equal to $15 million less $5 million as a contribution to fund staff redundancies and office closure costs following completion of the Transaction. Based on discussions with Management of the Company, Grant Thornton Corporate Finance has assessed potential annual cost savings resulting from these one-off redundancies expenses. Our assessment of the equity value of The Woolmark Company takes into account the improvement in its financial performance as a consequence of these one-off redundancies expenses. It is unlikely that AWS on a stand alone basis will have the financial capacity and resources to incur up-front cash redundancies expenses of $5 million in order to achieve the assessed cost savings. Should our assessment of The Woolmark Company have regard only to the current financial performance, our valuation assessment of the equity value would have been materially lower;

- In our assessment of the equity value of The Woolmark Company we have included a perpetual growth rate of 3%. The historical growth rate of The Woolmark Company was lower than our estimate.

- As set out in the Explanatory Statement, the Directors are of the opinion that the current AWS business model is not sustainable, accordingly if the Transaction does not proceed, AWS would in all likelihood move into administration or its assets would be sold to third parties. There is uncertainty if a sale of the Key Assets of the Company under these circumstances will give rise to a going concern valuation;

- We have been advised that based on the existing losses carried forward, AWS will not incur any capital gain tax as a result of the Transaction;

- As part of a competitive tender process, AWS may be able to obtain a superior offer for the Key Assets. However, Management of the Company have pointed out that the sale of the Key Assets to another buyer may raise the risk that the Key Assets may be deployed to promote wool grown outside of Australia, to the detriment of Australian woolgrowers. The Transaction provides shareholders with benefits that are not necessarily able to be quantified as part of the Total Consideration. In addition, given the different performance and features of the Key Assets, there is uncertainty regarding the ability of the Company to complete a combined sale of the Key Assets to a single potential purchaser. Under a break-up scenario of the Key Assets, the sale of the smaller and non performing assets may be challenging and with an uncertain outcome;

- We have been advised by Management of the Company that the majority of shareholders of AWS and AWI are common to both AWS and AWI. As set out in the Explanatory Statement, the Transaction provides an opportunity to reinvigorate the Woolmark certification trade mark (and the other Key Assets) as part of the new structure, whilst AWS did not have the necessary financial resources to do this effectively. We understand that AWI has committed to invest material resources to revitalise the Woolmark brand. The current shareholders of AWS will benefit from an improvement in the financial performance of the Key Assets and from a reinvigoration of AWS' statutory objectives following completion of the Transaction;

- The Transaction may allow for a more effective linking of research and development activities currently conducted by AWI with the marketing and commercialisation activities currently conducted by AWS;

- As a consequence of the current IWS Pension Fund Liability, AWS has a limited capacity to invest resources into the Australian wool market for the benefit of AWS Shareholders. Following completion of the Transaction, given AWS and AWI have common shareholders, AWI may have an enhanced capacity to reinvest profits generated from the operating activities of the Key Assets into the Australian wool industry;

- As set out in section 4.3 of the Explanatory Statement, the IWS Pension Fund deficit is equal to $22.1 million as at 31 May 2007 (prior to actuarial adjustments for year end and the effect of the obligations of the agreement with IWS Pension Fund Trustees). Contingent upon completion of the Transaction, AWS have agreed with the IWS Pension Fund Trustees to crystallise AWS' ongoing exposure to the IWS Pension Fund. The Directors of AWS are of the opinion that meeting the IWS Pension Fund shortfall in accordance with the agreed payment plan, together with a measured investment plan devised by the AWS Directors, presents AWS with the opportunity to provide AWS Shareholders a return on their investment in future years. Upon completion of the agreed repayment plan, AWS will have removed a material uncertainty from its balance sheet which may provide an enhanced capacity to distribute funds to its shareholders; and

- The IWS Pension Fund deficit is equal to $22.1 million as at 31 May 2007 (prior to actuarial adjustments for year end and the effect of the obligations of the agreement with IWS Pension Fund Trustees) The IWS Pension Fund Trustees have agreed, contingent upon completion of the Transaction, that the outstanding deficit will be satisfied by 3 annual payments in 2008, 2009 and 2010 totalling $13 million. In addition, the IWS Pension Fund Trustees will receive further payments after 1 January 2010 equal to 50 per cent of any net proceeds above book value from the sale/valuation of the Andar Holdings and Mumbai Property. Based on the structure of the payments agreed between the Management of AWS and the IWS Pension Fund Trustees, the actual consideration payable by AWS may be materially less than the IWS Pension Fund deficit as at 31 May 2007.

Disadvantages

- As set out in the SSPA, the Key Assets to be sold to AWI include the Sportwool trademark and business. As set out in Section 6.2.2 of this Report, Sportwool is in the growth phase of their business cycle and has recorded revenue growth of 73% for FY07. Following completion of the Transaction, AWS shareholders will not have the opportunity to benefit from the improvement in the financial performance of Sportwool. In addition, the price that may be achieved 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 Key Assets;

- The Directors noted that one of the possible reasons to vote against the Transaction was the belief that the sale of The Woolmark Company may obtain a higher price if sold on the open market. However, consideration should be given to the risks to Australian wool growers associated with disposing of The Woolmark Company to third parties that may pursue different statutory objectives;

- As set out in the SSPA, AWI is a tax exempt entity. Our assessment of the equity value of The Woolmark Company is based on the normalised free cash flow which includes tax payments at the corporate tax rate of 30%. Accordingly, The Woolmark Company value for AWI may be materially higher than our assessment as set out in this Report.

- AWS bears all the transaction risk and costs associated with the implementation of the Pre Completion Transactions as set out in the SSPA These Pre Completion Transactions include:

  - in relation to Woolmark Europe, the effective transfer of UK employees into a newly incorporated UK company on the same terms and conditions except as to superannuation arrangements; and

  - in relation to Mumbai Property, AWS take all necessary steps to procure the execution of the Mumbai Property Management Agreement;

- The Woolmark Company is a significant asset owned by AWS. The disposal of The Woolmark Company changes the nature of the investment for AWS shareholders. After completion of the Transaction, AWS will be an investment vehicle with approximately $25.3 million of cash under management as at May 2007 as set out in the pro forma balance in Section 4.7.2 of this Report. 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.

We have considered the likely advantages and disadvantages of the Transaction for the shareholders of AWS, and the advantages and disadvantages for the same shareholders if the Transaction does not proceed. It is the opinion of Grant Thornton Corporate Finance that the benefits, in the absence of an alternative proposal, that are likely to accrue to shareholders as a result of the Transaction outweigh the advantages if the Transaction does not proceed.

Accordingly, in the opinion of Grant Thornton Corporate Finance, the Transaction is reasonable to the shareholders of AWS in the absence of a superior offer.

In the opinion of Grant Thornton Corporate Finance, the Transaction is fair and reasonable to the shareholders of AWS.

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act 2001. The Financial Services Guide is included in Appendix A of this Report.

Yours faithfully

GRANT THORNTON CORPORATE (NSW) PTY LTD

SCOTT GRIFFIN Director and Authorised Representative	NEIL COOKE Director and Authorised Representative

1 THE TRANSACTION

AWS was formed in January 2001 as part of the privatisation of the former statutory marketing authority AWRAP comprising of The Woolmark Company and AWI.

On 30 April 2002, AWI de-merged from AWS and continued as a not-for-profit organisation, whilst AWS was established as a commercial entity charged with responsibility for sustaining itself through its activities. The majority of shareholders of AWS and AWI are common to both AWS and AWI.

AWS' core business was the commercial development of the Woolmark certification trade mark and its associated brands and trade marks along with the commercialisation of other intellectual property resulting from grower funded research. AWI's focus was on managing the woolgrower research and development levy, while receiving government funding and commissioned research and development.

On 27 July 2006 AWS and AWI entered into a MOU pursuant to which the companies undertook to take steps to integrate the business of AWS into AWI's existing business.

On 18 April 2007, Federal Minister for Agriculture, Fisheries and Forestry The Hon Peter McGauran MP gave notice of the Government's approval to fund the purchase of The Woolmark Company by AWI.

On 31 July 2007, AWS entered into a SSPA with AWI pursuant to which it was agreed that the Key Assets would be transferred to AWI for the Total Consideration. As set out in the SSPA, the Total Consideration payable by AWI to AWS is as follows:

- $15 million being the agreed value of the Key Assets;
- plus the book value of NTA as set out in the Completions Accounts (figure 13 of this Report). We have been provided with a pro-forma balance sheet of the Completion Accounts as at May 2007 which indicates NTA of $nil;
- minus a redundancy allowance of $5 million to fund staff redundancies and office closure costs following completion of the Transaction; and
- plus $0.25 million as make good allowance. We note the make good allowance has not been included in our assessment of the Total Consideration given that AWS will be required to incur these costs in the future.

Accordingly, the Total Consideration is equal to $10 million.

Provided that the AWS Shareholders approve the Transaction at the General Meeting, the anticipated date for completion of the Transaction is 1 September 2007. Upon completion:

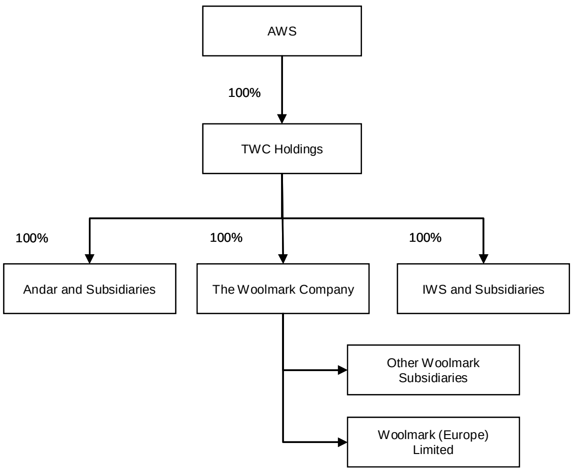
- AWS will procure the transfer by its wholly-owned subsidiary, TWC Holdings Pty Ltd ("TWC Holdings"), of its 100% interest in the shares of The Woolmark Company Pty Ltd to AWI; and
- AWI will pay AWS the Total Consideration.

The Transaction will not become effective if the conditions precedent contained in the SSPA are not satisfied or waived. Those conditions precedent are listed in Section 6.2 of the Explanatory Statement, The Woolmark Company's Key Assets include the following:

- All of issued shares of The Woolmark Company, a wholly owned subsidiary of TWC Holdings. The Woolmark Company will own the majority of AWS' intellectual property assets, including:
    - the Woolmark certification trade mark together with all associated brands and sub trade marks and registrations of those certification trade marks in all jurisdictions;
    - the Sportwool ™ together with all associated brands and sub trade marks and registrations of those trade marks in all jurisdictions;
    - the Woolscience ™ together with all associated brands and sub trade marks and registrations of those trade marks in all jurisdictions;
    - the Woolfleece unregistered Trade Mark together with all associated brands and sub trade marks and registrations of those trade marks in all jurisdictions;
    - the Optim ™ together with all associated patents, brands and sub trade marks and registrations of those patents and trade marks in all jurisdictions;
    - the Woolmark Licensing Business; and
    - the Market Intelligence business (refer to section 4.3 for further details).

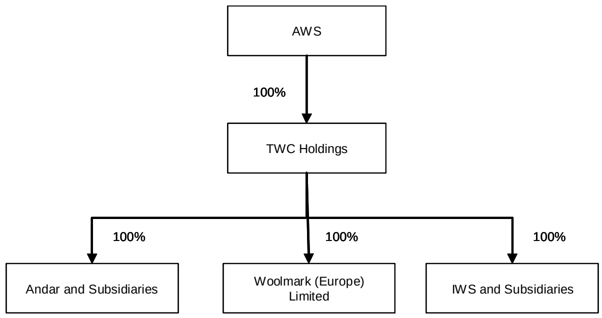
We set out below the corporate structure of AWS prior to and following the Transaction.

Figure 2: AWS corporate structure prior to Transaction



Source: AWS Management

Figure 3: AWS corporate structure following the Transaction



Source: AWS Management

The Transaction is subject to the following conditions precedent:

- Passing of Resolutions as set out in the Notice of General Meeting and Explanatory Statement at the General Meeting;
- In relation to the IWS Pension Fund deficit:
  - AWS must execute the Deed of Compromise with the IWS Pension Fund Trustees; and
  - AWS must obtain the requisite clearance from the UK Pension Fund Regulator.
- The completion to the satisfaction of AWI of due diligence in relation to the tax affairs of AWS and its subsidiaries;
- The Commonwealth Scientific and Industrial Research Organisation ("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;
- The Australian Federal Minister for Agriculture, Fisheries and Forestry must pay the sum of $15 million to AWI to fund the acquisition of the Key Assets;
- Confirmation from the Australian Taxation Office ("ATO") that AWI will retain its status as a tax exempt entity following the Transaction;
- The Australian Competition and Consumer Commission ("ACCC") must consent under section 180 of the Trade Marks Act 1995 (Cth) to the assignment by The Woolmark Company of the registered certification trade mark to Woolmark Holdings; and
- AWS and The Woolmark Company are also required to take certain other steps prior to completion of the Transaction, including:
  - transferring all of the assets of Woolmark Europe (other than the liabilities attaching the Woolmark Europe in connection with 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 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.

We set out below the ordinary resolutions related to the Transaction as set out in the Notice of General Meeting and Explanatory Statement.

Resolution – Approval of the sale of the Assets

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

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,

2 SCOPE OF THE REPORT

Grant Thornton Corporate Finance has been engaged by the Directors of AWS to provide an independent expert's report stating whether, in its opinion, the Transaction is fair and reasonable to the shareholders of AWS.

An independent expert's report is not required to accompany the Notice of General Meeting and Explanatory Statement under the Corporations Act, the Directors of the Company have commissioned an independent expert report to assist them in their duties to provide shareholders with full and proper disclosure to enable them to assess the merits of the Transaction. ASIC Policy Statement 75 recommends that shareholders be provided with an analysis of whether the proposal is fair and reasonable.

Our Report is to be read in conjunction with the Notice of General Meeting and Explanatory Statement dated on or around 3 August 2007 in which this Report is included, and is prepared for the exclusive purpose of assisting the shareholders of AWS in their consideration of the Transaction. This Report should not be used for any other purpose.

The decision of whether or not to approve the Transaction is a matter for each shareholder of the Company based on their own views of the value of The Woolmark Company and expectations about future market conditions, Company's financial performance, risk profile and investment strategy. Individual shareholders should seek their own professional advice.

Grant Thornton Corporate Finance consents to the issue of this independent expert's report in its form and context and consents to its inclusion in the Notice of General Meeting and Explanatory Statement.

Grant Thornton Corporate Finance is independent of the Company and its Directors and all other parties to the Transaction and has no involvement with, or interest in, the outcome of the Transaction other than that of the independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out of pocket expenses for the preparation of this Report. Except for this fee, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this Report. The payment of this fee is in no way contingent upon the success or failure of the proposed Transaction.

Basis of Assessment

This Report has been prepared in accordance with ASIC Policy Statement 74 "Acquisitions agreed to by shareholders" and ASIC Policy Statement 75 "Independent expert's reports to shareholders".

In undertaking our assessment, we have considered the likely impact of the Transaction to the shareholders of AWS. We have not considered how the Transaction may affect individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Transaction on individuals, as we do not know their respective financial circumstances. Individual shareholders should seek their own professional advice.

Fairness and reasonableness

An independent expert's report prepared pursuant to PS 74 directs the Independent Expert to advise whether the Transaction is "fair and reasonable" to the shareholders.

The term "fair and reasonable" has no legal definition. PS 74 states that in determining whether a transaction is "fair and reasonable", the transaction's likely advantages and disadvantages to shareholders must be compared in the independent expert's report with the advantages and disadvantages to the same shareholders if the transaction does not proceed.

Comparing the value of the Key Assets to be acquired and the value of the Total Consideration to be paid is only one element of this assessment.

Accordingly, assessing the value impact of the Transaction on the shareholders (i.e. fairness) is an important element of this analysis although it is not the only determinant of our final opinion.

In addition to our quantitative assessment, we have also had regard to the following qualitative assessment, in determining if the Transaction is fair and reasonable to the shareholders of AWS:

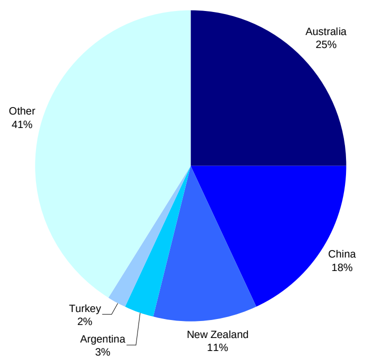
- the likely benefits accruing to the shareholders of AWS from the Transaction in the absence of an alternative offer; and
- any disadvantages of the Transaction.

3 INDUSTRY OVERVIEW

Wool together with cotton is the oldest natural fibre used in the manufacture of apparel and home products. However, with the advent of synthetic fibre sourced from Acrylic and Polyester, the consumption of wool both in apparel and non-apparel industry has declined from 8.6% in 1960 to 2.0% in 2006. The main contributing factors towards this decline are the low production costs of the synthetic fibre as well as its durability.

Global wool production is approximately 1.3 million tonnes per annum of which 60% go into apparel. The remainder of production is used in products such as carpeting, felt, insulation and upholstery. The leading commercial producers of wool are Australia, China and New Zealand.

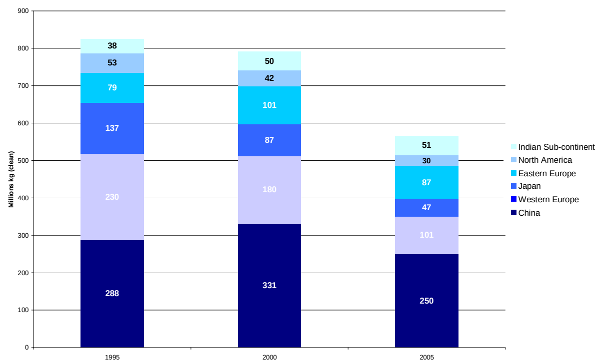
Figure 4: Global Wool Clip 2004 / 2005



Source: AWI

The major production centres for wool processing and wool product production have traditionally been located in Western Europe and Japan, during the late 1980's and throughout the 1990's. These processes then began to migrate to mainland China. This relocation increased in scale and intensity in 2005, following the ending of the apparel import quotas into the US and EU. As a result of this relocation, Early Stage Processing (ESP) increased by 13% in China within the past ten years, despite a 40% decline ESP activity globally over the same period. We set out below a summary of the major manufacturers of wool apparel below:

Figure 5: Wool Apparel – Major Manufacturing Locations



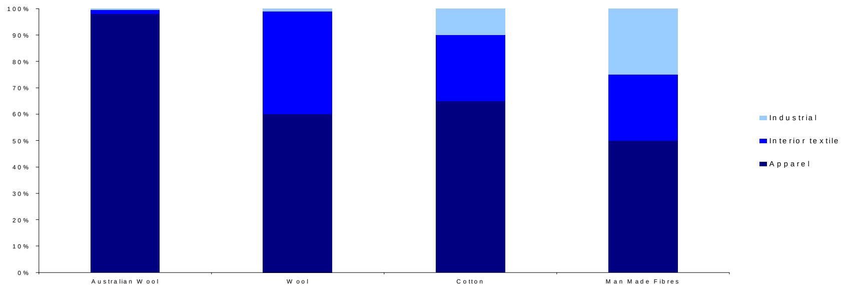
Source: The Woolmark Company

Furthermore, removal of the global clothing and textile quota system at the start of 2005 has led to an increase in competition from low priced imports in the key markets of USA and Western Europe and placed continued downward pressure on the selling prices of finished goods. As a consequence, margins throughout the wool production pipeline have been reduced. Manufacturers in developing countries have attempted to reduce the impact of this trend by improving quality levels and developing new products which are unable to be replicated by low-cost manufacturers.

During 2006, the wool industry experienced a shift from a more fragmented and sector specific industry to an industry with vertically integrated operations from raw wool to finished product. Furthermore, raw wool prices increased by 10% mainly due to the improved economic conditions in 2006 around major financial regions and increase in individuals disposable income translating into an increased sale at retail levels.

The demand for wool, and other fibres, can be broadly divided into two sectors – apparel, or clothing, and non-apparel demand. Non-apparel demand is made up largely of interior textile demand (home furnishings) and industrial demand.

Figure 6: Wool Demand – by Sector



Source: The Woolmark Co., Cotton Outlook, CIFRS

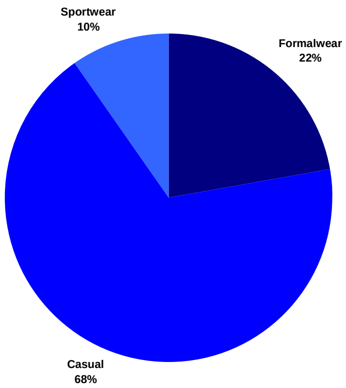
As a luxury fibre, the key market for wool within the apparel sector has traditionally been in the formal and business wear markets. In recent years, the demand for wool has decreased (as a proportion of total fibre consumption) due to a trend in the key developed markets to a casualisation of dress standards in general and most significantly in business wear.

In the key apparel markets, whilst the total expenditure on apparel is increasing, the share of total spending dedicated to clothing is falling due to continued decreases in clothing prices. This decrease has been driven largely by the casualisation of clothing but has also been attributed to the spread of mass-market retailers and a growth in the level of spending on "disposable fashion" (low priced, poor quality clothing aimed at filling demand for the latest fashion trends).

One of the fastest growing sectors of the international textile and clothing industries is in performance apparel. This market is driven largely by changes in consumer lifestyles in developed markets where the proportion of consumer on active leisure activities is increasing.

The continued market growth in performance apparel is also being boosted by the emergence of new fibres, new fabrics and innovative process technologies. This market has historically been one that has had little relevance to wool but innovations such as Sportwool are increasing the ability for wool to compete in this market.

Figure 7: Global Apparel markets and wool penetration



	Demand $US bill	Proportion of Wool Demand %
Formalwear	48.7	54.4%
Casual	40	44.7%
Sportwear	0.76	0.8%

N.b. The global apparel market is estimated at approx. US$815 billion

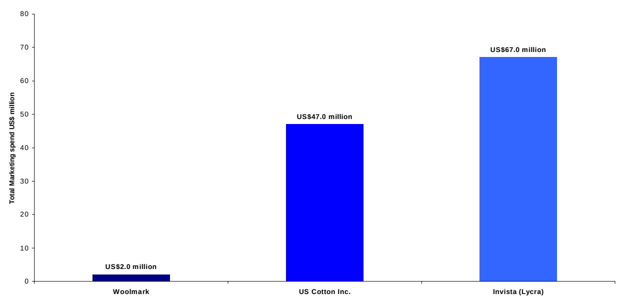
Source: The Datamonitor, KSA, Euromonitor

We note that the proportion of the global apparel market represented by sportswear is very small in comparison to the other sectors. It should be noted however, that in developed markets, garments developed for use in sporting pursuits have become important sectors of the general casual wear market.

The global production of fibre is estimated to almost double between 2003 and 2029, rising from 57 million tones to over 105 million tones. The majority of this growth is expected be driven by man made fibres, particularly polyester – polyesters share of the total market is expected to reach 57% by 2029.

The growth in man-made fibres has been enabled by significant investment in both the research and development and the promotion of these fibres. This investment has resulted in fibres that offer significant advantages in terms of cost, adaptability and durability over natural fibres.

Figure 8: Investment in marketing by selected fibre bodies



Source: The Woolmark Company

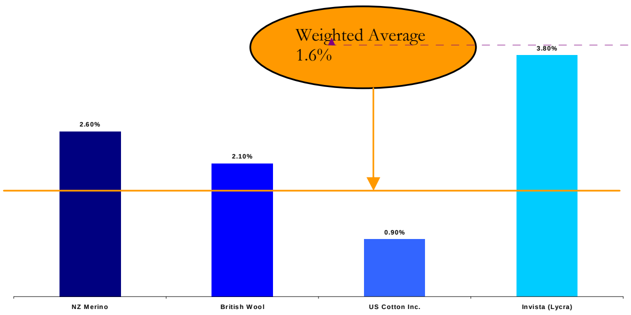
Amongst natural fibres, the commitment to research and development has been greatest in the cotton sector. Genetically modified ("GM") crops have led to improvements in cotton yields of close to 50%, which greatly increases the price competitiveness of cotton to man-made fibres. Cotton consumption is expected to rise by 37% by 2029 and the majority of this growth will come from an increased consumption of GM crop production.

The majority of investment in Australian Wool has historically focused on research and development projects, at the expense of consumer marketing activities. This has led to a number of product innovations, such as Optim and Sportwool, but a reduced ability to translate these technological advances into significant demand growth.

The underinvestment in Australian wool marketing has led to a decreased awareness of wool in the key markets and despite the advances made, has reduced the ability for wool to overcome the perceptual disadvantages of the product when compared to competing fibres.

The weighted average marketing investment by competing fibre bodies (such as INVISTA, US Cotton Inc., NZ Merino and British Wool) averages 1.6% of total sales. In order to match this investment in proportional terms, Australian Wool requires an investment of approximately US$45 million in consumer marketing. *(Source: The Woolmark Company)*

Figure 9: Annual marketing investment as % of industry sales



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US$ mill	1.1	0.5	47	67

Source: The Woolmark Company

Australia is still the largest producer of merino wool in the world, producing almost two-thirds of this wool, putting Australian woolgrowers in a position of great market strength.

Fine and superfine wool (19 micron and finer) now comprises one third of the Australian wool clip. Superfine wool production is now 18% of the total Australian clip, with the production of super- and ultra-fine wool increasing by up to 30% each year since 2000.

Merino wool, especially fine and superfine merino wool, meets the demands of consumers in the world's major wool consuming countries at retail – China, Japan, the USA, the UK, Italy, Germany and Korea.

Growing consumer trend is for 'ethical' apparel including environmentally sustainable production, 'clean' production and processing and meeting minimum labour standards. During 2006, the Woolmark appeared on over 2,400 international licensees.

4 OVERVIEW OF THE AWS

4.1 Overview

AWS is the world's leading wool textile organisation with almost 70 years experience in the wool industry and expertise in textile innovation and technical research and development. These capabilities allow AWS to offer a range of opportunities to companies at all stages of the wool products market from production to retailing and post-purchase support.

The core capability of the Company are in licensing of the Company's brands and products, commercialisation of wool technologies and innovations, technical consulting, business information and commercial testing of wool fabrics.

AWS provides a unique, worldwide quality endorsement for wool and wool care products through its ownership and licensing of the Woolmark label. AWS has three key business units – Woolmark, Woolmark Market Intelligence and Andar. We set out below an overview of each of these units.

4.2 Woolmark

Woolmark is responsible for the management and development of the Woolmark certification trade mark and its associated brands and trade marks.

Woolmark has four business divisions including Licensing, Sportwool, Technical Consulting and Product Marketing. All these divisions will be transferred to AWI.

Licensing
The Licensing division is responsible for the management and development of the Woolmark brand. This division licences the Woolmark brand to manufacturers of apparel, home wares, fabric care products and other related products. The Licensing division is also responsible for the testing of products to ensure compliance with the standards set out in the Woolmark Licensing agreements.

There are approximately 2,400 global Woolmark licensees split between apparel related licensees (80%) and home products related licensees (20%). Woolmark licensees pay for and display the Woolmark logo on 67 million tickets and 86 million labels of apparel and home products. In addition, the Woolmark logo has been reproduced over 200 million times on laundry detergents globally.

Management of AWS consider the Woolmark symbol to be the most valuable asset of the Company. Since being launched in 1964, the symbol has gained worldwide recognition.
The Woolmark symbol is supported by a global legal framework of protection. Each of the core brands of Woolmark, Wool Blend and Woolmark Blend are each backed by a global trade mark registration infrastructure to protect the brands from fraud and a unique and separate Quality Specification or standard of performance criteria which is ensured by over 200 different tests.

The Woolmark brand is the leading "added-value" premium fibre brand in textiles and is endorsed by major wool garment brands including Benetton, Electrolux, Max Mara and Country Road. The Woolmark brand enjoys a world-wide recognition.

Sportwool / Woolscience
Sportwool is a product based on a trade secret developed by The Woolmark Company in association the CSIRO, which aims to increase the relevance of wool in the active performance apparel sector. The Sportwool fabric technology is used to produce a wide-range of wool-blend products that use the unique, natural moisture buffering and vapour transport properties of Australian merino wool.

The process to make Sportwool fabric has been protected by trade-secret. The developers of the Sportwool fabric technology determined that the protection offered by holding the technology as a trade secret, was higher than achievable by attempting to patent the product. This decision was made due to the uncertainty surrounding the patentability of the product and the unwillingness to allow key commercial information to become freely available if the patent was unsuccessful. Confidentiality terms have been included in the licence agreements with manufacturers who manufacture the fabric.

In Australia, the Sportwool fabric is manufactured under license. The Woolmark Company markets, sells and finances the Sportwool fabric produced in Australia. The Sportwool trademark is jointly owned by CSIRO and TWC Holdings/The Woolmark Company. The know-how related to the manufacture of the Sportwool fabric is licensed by The Woolmark Company to manufacturers in Australia, Japan, Korea, Denmark, United Kingdom and Italy. These manufacturers pay a royalty to The Woolmark Company.

Sportwool trade secret is used in 3 key products: Sportwool, Woolscience and Woolfleece. The majority of the trading goods sold relate to Sportwool (mostly for US & European markets) whereas the royalty streams are a mixture of Sportwool / Woolscience. Sportwool and Woolscience use the same technology however, they have different target markets such as active/leisure wear for Sportwool and Industrial wear for Woolscience.

Sportwool has been operating on a regional basis, with individual cost centres focusing the European, Japanese and Australian markets with a global product range framework. This has led to separate product ranges, developed by regional partners which are tailored for the local customers.

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

Product Marketing
The product marketing function is commercialising the results of product development activities.

4.3 Market Intelligence

The Market Intelligence group is the leading provider of global wool industry market intelligence. The key client sectors for the services provided are the Australian Wool growers, Woolgrower Organisations (e.g. AWI), Spinners, Weavers, Early Stage Industry (Brokers to Combers).

The customers of the service are able to access

- information on the latest trends and business conditions;
- forward looking analysis, expert commentary and comprehensive information on Wool Prices, Supply and Demand, Trade, Wool Exports and Production; and
- technical experts with insights along the entire production pipeline.

Market Intelligence has developed a system to calculate the net domestic availability which estimates the demand for wool by country and in aggregate for the world. This is a closely held trade secret of the Company as it represents a significant competitive advantage for the Woolmark Market Intelligence division. The net domestic availability gives the Company a significant competitive advantage as it is the only system in the world able to perform this conversion of the wool produced.

AWI is a major customer of the Market Intelligence division for the provision of global information to the AWI Board, management and staff. The Market Intelligence division will be transferred to AWI following the completion of the Transaction.

4.4 Andar Holdings

Andar Holdings has three business divisions including Andar New Zealand, Woolmark Development International Limited and Optim.

Andar New Zealand
Andar Holdings is a New Zealand based wool processing and industrial machinery manufacturing, sales and distribution company. Andar Holdings is manufacturer of wool processing machinery and wool effluent treatments. With over 50 years invested in the research and development of wool technologies. Andar Holdings provides innovative and practical solutions for preparing and processing wool. The use of the latest technology available, coupled with 50 years of experience in manufacturing, installation and support, ensures that Andar Holdings provides expertise in delivering practical solutions, reliable processing machinery and control systems.

Following the Transaction, Andar Holdings will be the remaining operating business division of the AWS.

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

Optim
The Optim process is based on a fibre technology developed by The Woolmark Company in association with CSIRO, which creates a completely new fibre. The unique Optim fibre is produced by subjecting wool to a patented twisting and stretching process providing a permanent reduction in diameter of up to 3 microns. The resulting fibre possesses an extremely soft handle and silk-like lustre.

Management of the Company has advised that $35 million has been invested during the years to develop the technology to the current level. At the core of the Optim technology is the Intellectual Property ("IP") required to build the machinery developed to produce the fibre. The Optim trademark is jointly owned by CSIRO and TWC Holdings Pty Ltd/The Woolmark Company Pty Ltd, covering raw fibres, yarns, fabrics and end products in the major identified markets. Optim pays to CSIRO a royalty for each machine sold equal to $90,000.

The machinery IP is protected by patents in Australia, New Zealand and the USA. These patents are due to expire in 2010. We note that the machinery IP is not protected in China, which is the major market for Optim technology. We have been advised that seven Optim machines have been put into operation, with four machines being sold to King Deer (China) together with the exclusivity in China for the production of the Optim fibre based on a royalty payment.

We have been advised that the exclusivity has now been revoked and the royalty payment ceased. We also note that King Deer was unable to meet the royalty payments given unrealistic margin expectations. Only two machines out of the seven sold generate revenue for the Company as at today. The machinery, originally designed by Invetech, was not able to meet the specific production rate or to reduce the diameter of a 19 micron fibre by the claimed 3 microns, given there were reported problems with inconsistent setting of the stretched fibre. We understand that these technology issues have now been resolved.

4.5 AWS Income Statement

The income statements of the AWS for FY05, FY06 and 11 months ended 31 May 2007 ("YTD07") are set out in the table below.

Figure 10: AWS Income Statement

	Audited 12 months 30-Jun-05 $'000	Audited 12 months 30-Jun-06 $'000	Unaudited 11 months 31-May-07 $'000
Revenue	**51,418**	**37,921**	**31,386**
COGS	(18,866)	(8,894)	(8,549)
Staff costs	(20,101)	(15,655)	(14,724)
Marketing/Sponsorships	(1,392)	(1,368)	(1,651)
Operating Expenses	(1,343)	(1,038)	(624)
Travel	(1,522)	(1,027)	(875)
Legal/Professional fees	(1,373)	(1,496)	(958)
Communications	(2,158)	(1,815)	(1,702)
Rent & Utilities	(2,966)	(2,799)	(2,541)
Consultants	(1,015)	(887)	(725)
Other expenses	(481)	(1,134)	(639)
Exchange gains/losses	2,760	(1,732)	255
EBITDA	**2,961**	**76**	**(1,347)**
Depreciation	(1,284)	(1,045)	(697)
Impairment	(50)	(38)	-
EBIT	**1,627**	**(1,007)**	**(2,044)**
Net interest revenue	1,086	1,229	707
Profit/Loss before tax	**2,713**	**222**	**(1,337)**
Income tax expense	(501)	(482)	(675)
Profit/Loss after tax	**2,212**	**(260)**	**(2,012)**
Profit attributable minority interest	(263)	(56)	(73)
Profit/Loss attributable to the members of AWS	**1,949**	**(316)**	**(2,085)**

Source: Annual Report for FY06 and YTD Management Accounts

Brief analysis of the performance of the AWS for the 2 year period to 30 June 2006

AWS commenced a rationalisation and restructuring program with the aim of improving the executive structure and streamlining the business into three operating divisions;

- *Woolmark business unit* - integrated Licensing, Sportwool and Product Marketing into one business unit during FY06. The Woolmark business unit produced an EBITDA of $4.98 million for FY06 before allocation of corporate overheads.

- *Andar business unit* - produced a loss of $0.33 million for FY06 before allocation of corporate overheads. The profitability of the business unit decreased from prior years due to a depressed market for early stage wool processing.

- *Market Intelligence business unit* - recorded a profit of $0.29 million for FY06, which represented a decrease from FY05. During FY06, Market Intelligence decreased its reliance upon AWI as its major customer, with a significant lift in revenue from other customers.

The majority of exchange losses refer to the translation in A$ of the net assets held in other countries. AWS does not adopt any hedging policies.

Brief analysis of the YTD07 performance

AWS revenues for FY07 have decreased by $3.7 million or 9.7 per cent compared to the revenues for FY06 based on the annualised results for the 11 months to 31 May 2007 ("YTD07"). The decrease in revenues is mainly attributed to the declining financial performance of the Woolmark businesses including Product Marketing and Technical consulting divisions which sustained significant decreases in revenues.

The Woolmark Licensing division produced an EBITDA before corporate overhead allocation of $2.6 million for YTD07, which is a small decrease from FY06 on an annualised basis. As a result of the poor revenue performance of the Product Marketing and Market Intelligence divisions, EBITDA (before corporate overhead allocation) decreased collectively by over $2 million.

The EBITDA for YTD07 was impacted by a number of non-recurring expenditure items including the following items:

- *Test marketing* – relates to $356,000 in one-off marketing costs for expansion into the American market; and

- *Brand Strategy* – relates to $250,000 in consulting fees in connection with new brand strategy.

We note that AWS has historically incurred exchange losses in connection with the license fees paid in US$. In our assessment of the equity value of The Woolmark Company, we have assumed that the exchange losses and gains over the following years will off-set each other. We note that the exchange losses/gains as set out in the audited accounts may be different from the assessment included in the Management accounts as at May 2007.

4.6 Balance sheet

We present below the balance sheet of AWS over the last four years.

Figure 11: Balance sheet

	As at 30-Jun-04 $'000	As at 30-Jun-05 $'000	As at 30-Jun-06 $'000	As at 31-May-07 $'000
Current Assets				
Cash	38,335	32,286	26,487	21,073
Trade and other receivables	8,558	9,459	10,214	10,380
Inventories	4,017	3,555	3,183	4,108
Other current assets	1,353	1,229	1,461	1,342
	52,263	**46,529**	**41,345**	**36,903**
Non-current assets held for sale	3,618	3,609	3,598	3,598
Total Current Assets	**55,881**	**50,138**	**44,943**	**40,501**
Non-Current Assets				
Receivables	159	148	154	151
Property, plant and equipment	5,357	4,813	4,151	3,914
Intangible Assets	836	638	623	1,904
Deferred tax assets	692	642	855	-
Total Non-Current Assets	**7,044**	**6,241**	**5,783**	**5,969**
Total Assets	**62,925**	**56,379**	**50,726**	**46,469**
Current Liabilities				
Trade and other payables	8,702	7,141	4,645	5,621
Interest bearing liabilities	504	956	530	732
Provisions	5,230	1,430	1,521	1,545
Other current liabilities	13,062	11,170	11,315	10,147
Total Current Liabilities	**27,498**	**20,697**	**18,011**	**18,045**
Non-Current Liabilities				
Provisions	2,547	2,251	2,513	2,184
Retirement benefit obligations	27,445	26,000	24,287	22,147
Total Non-Current Liabilities	**29,992**	**28,251**	**26,800**	**24,331**
Total Liabilities	**57,490**	**48,948**	**44,811**	**42,376**
Net Assets	**5,435**	**7,431**	**5,915**	**4,093**

Source: FY06 Annual Report and Management Accounts

Brief commentary on the historical balance sheets of AWS

Cash reserves decreased as at 30 June 2006 due in the main to negative operating cash flow of $3.79 million and AWS acquiring the remaining 20% of the issued capital of Andar Holdings for total cash consideration of $1.15 million.

The most significant liability of the Company is a retirement benefits obligations of $22.1 million as at 31 May 2007 (prior to actuarial adjustments for year end and the effect of the obligations of the agreement with IWS Pension Fund Trustees). This liability relates to obligations arising following the privatisation of AWRAP. When AWS was created in 2001, the Company inherited a number of legacy items. The most significant of which was the International Wool Secretariat (IWS) Pension Fund.

Any shortfall in the IWS Pension Fund under UK law becomes the responsibility of the employer. As at 1 January 2001, the actuarial assessment of the fund indicated that the fund was in "balance". As at 31 May 2007, the IWS Pension Fund liability was $22.1 million (prior to actuarial adjustments for year end and the effect of the obligations of the agreement with IWS Pension Fund Trustees).

The investment returns generated by the IWS Pension Fund do not cover the increasing pension liability, despite AWS paying approximately $1.0 million per annum into the IWS Pension Fund over the past three years.

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 contingent on the completion of the Transaction which is subject to AWS Shareholder approval being obtained to proceed with the Transaction.

Pursuant to the agreement, AWS will make three annual payments to the IWS Pension Fund of $9 million, $2 million and $2 million respectively which amounts to $13 million. In addition, the final payment will include a further payment after 1 January 2010 equal to 50 per cent of any net proceeds above book value from the sale of the Andar Holdings and Mumbai Property.

The non current asset held for resale amounting to $3.9 million relates to the business premises in Mumbai, India. Post completion of the Transaction, AWS will execute an agreement with AWI which will allow for AWS to manage the property on behalf of AWI and receive the benefits of any rent and sale proceeds of the Mumbai property. Further details are set out in section 4.7.2.

The increase in intangible assets as at 31 May 2007 from 30 June 2006 relates to the acquisition of the Ashburton (NZ) Front Store by Andar Holdings.

As at 30 June 2006, AWS had accumulated tax losses for which no deferred tax asset has been recognised amounting to $12.6 million. The potential tax benefit of these tax losses equates to $3.8 million.

The majority of other current liabilities are comprised of unearned income, which is generated by the receipt of cash payments from customer in advance of services being provided. We understand the balance of unearned income as at 31 May 2007 amounted to $10.1 million.

4.7 Pro forma Financial Information

Upon completion of the Transaction, AWS will operate principally to fulfil its obligations towards the IWS Pension Fund Trustees. In the short term, AWS will retain ownership of Andar Holdings as well as certain other residual assets and liabilities. We set out below the pro forma financial information of AWS assuming the completion of the Transaction in May 2007.

4.7.1 Pro forma income statement

We set out in this section pro forma financial information assuming the completion of the Transaction in May 2007.

Figure 12: AWS Pro forma Income Statement

	Unaudited 11 months 31-May-07 $'000	Transferred to AWI $'000	Pro-forma 11 months 31-May-07 $'000
Revenue	**31,386**	**20,275**	**11,111**
COGS	(8,549)	(2,540)	(6,009)
Staff costs	(14,724)	(10,567)	(4,157)
Marketing/Sponsorships	(1,651)	(1,577)	(74)
Operating Expenses	(624)	(332)	(292)
Travel	(875)	(733)	(142)
Legal/Professional fees	(958)	(859)	(99)
Communications	(1,702)	(1,486)	(216)
Rent & Utilities	(2,541)	(2,063)	(478)
Consultants	(725)	(649)	(76)
Other expenses	(639)	(321)	(318)
Exhange losses	255	-	255
EBITDA	**(1,347)**	**(852)**	**(495)**
Depreciation	(697)	(242)	(455)
EBIT	**(2,044)**	**(1,094)**	**(950)**

Source: AWS Management accounts

The pro forma income statement for the 11 months to 31 May 2007, reflects the financial performance of the Andar Holdings business assuming the completion of the Transaction on 1 June 2007. The pro forma income statement has been prepared on the basis that the financial results of the Key Assets have been transferred to AWI.

The pro forma revenue of $11 million is mainly comprised of revenue generated by Andar Holdings of approximately $10.6 million. The remaining balance relates to rent received from the Mumbai Property and certain recoveries from the IWS Pension Fund.

4.7.2 Pro forma balance sheet

The pro-forma balance sheet assuming the completion of the Transaction sheets have been assessed based on information sourced from the management accounts as at 31 May 2007. The pro-forma balance sheet has not been audited or reviewed in accordance with auditing standards. We set out below the pro-forma balance sheet assuming the completion of the Transaction in May 2007:

Figure 13: Pro forma Balance sheet as at May 2007

	Actual As at 31-May-07 $'000s	Assets Transferred to AWI $'000s	Asset Consideration $'000s	Pro-forma as at 31-May-07 $'000s
Current Assets				
Cash	21,073	5,062	9,250	25,261
Trade and other receivables	10,380	6,839	-	3,541
Inventories	4,108	1,066	-	3,042
Other current assets	1,342	835	225	732
	36,903	**13,802**	**9,475**	**32,576**
Non-current assets held for sale	3,598	-	-	3,598
Total Current Assets	**40,501**	**13,802**	**9,475**	**36,174**
Non-Current Assets				
Receivables	151	133	-	18
Property, plant and equipment	3,914	1,230	-	2,684
Intangible Assets	1,904	92	-	1,812
Total Non-Current Assets	**5,969**	**1,455**	**-**	**4,514**
Total Assets	**46,469**	**15,257**	**9,475**	**40,687**
Current Liabilities				
Trade and other payables	5,621	2,043	-	3,578
Interest bearing liabilities	732	-	-	732
Provisions	1,545	1,351	-	194
Other current liabilities	10,147	10,147	-	-
Total Current Liabilities	**18,045**	**13,541**	**-**	**4,504**
Non-Current Liabilities				
Provisions	2,184	1,714	-	470
Retirement benefit obligations	22,147	-	-	22,147
Total Non-Current Liabilities	**24,331**	**1,714**	**-**	**22,617**
Total Liabilities	**42,376**	**15,255**	**-**	**27,121**
Net Assets	**4,093**	**2**	**9,475**	**13,566**

Source: AWS Management Information

AWS Management has prepared the pro forma balance sheet with regard to the following transactions:

- As part of the Transaction, AWS will retain the following assets:
  - Woolmark Europe;
  - Andar Holdings and its subsidiaries;

- Woolmark Development International Limited;
- International Wool Secretariat; and
- Certain other residual assets and liabilities relating to foreign tax and foreign employee disability entitlements.

- The business premises in Mumbai, India will remain under the ownership of Woolmark Services India Private Limited ("WSIPL") following the Transaction. WSIPL 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 the Transaction. The agreement will provide 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.

  In consideration of the provision of the management services to AWI, AWI will pay AWS a management fee equal to the net income from the property in addition AWS will receive the net proceeds of the sale of the property, if the property is sold. We note the presentation of the Mumbai Property as an asset held for resale in the pro forma balance sheet as set out in Figure 13 may not satisfy the accounting policy under Australian Equivalents to International Financial Reporting Standards ("AIFRS") as AWS may not have legal title to the Mumbai property.

- All other assets owned by The Woolmark Company will be transferred to AWI at book value.

- AWS will receive $10,000,000 ($9,250,000 net of transaction costs) in consideration which is net of $5,000,000 redundancy allowance retained by AWI as set out in the SSPA. We understand that this Transaction will not trigger any capital gains tax event for AWS given the existing tax losses carried forward totalling $12.6 million as at 30 June 2006.

- Transaction costs including legal, accounting and printing costs are estimated to amount to $750,000 ($525,000 net of tax). The pro-forma balance sheet reflects the transaction costs tax amounting to $725,000, which will be paid out of the proceeds of the Share Consideration and a deferred tax asset of $225,000 assuming the Transaction costs are tax deductible.

5 VALUATION METHODOLOGIES

Introduction

ASIC Practice Note 43 provides guidance on the methodologies that an independent expert should consider when valuing a company for the purpose of forming an opinion as to the fairness of the Takeover transaction pursuant to the Corporations Act 2001.

In establishing the fair value of The Woolmark Company assets, the following valuation methods have been considered:

- the discounted cash flow method;
- the market value of listed securities;
- capitalisation of future maintainable earnings to which is added the realisable value of any surplus assets;
- comparable transactions;
- net asset backing;
- amount distributable to shareholders on orderly realisation of assets; and
- amount a potential acquirer may be prepared to pay for the business.

5.1 Discounted cash flow / capitalisation method

An analysis of the net present value of projected cash flows or DCF, is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model ("CAPM").

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this discount cash flow method generally requires cash flow forecasts for a minimum of five years.

The Management of AWS have not prepared a five year forecasts for The Woolmark Company. In the absence of any forecasts from AWS Management, Grant Thornton Corporate Finance have assessed the maintainable free cash flow of each The Woolmark Company business divisions and applied a capitalisation rate based on the WACC.

5.2 Market value of listed securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

The Woolmark Company is not currently listed on the ASX and therefore Grant Thornton Corporate Finance has not applied this methodology in our valuation assessment.

5.3 Comparable Transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contribute to the transaction price.

In the absence of comparable transaction data, Grant Thornton Corporate Finance has concluded that the comparable transaction method is not an appropriate valuation methodology in the circumstances of The Woolmark Company.

5.4 Net asset backing

The net asset backing valuation methodology for a company involves an assessment of the assets and liabilities of the company and applying a "fair market value" thereto. Asset backing valuations involve the determination of the net realisable value of the assets used in the business on the basis of an assumed sale of the business to a willing but not anxious buyer. This is not a valuation of a forced sale where assets might be sold at values materially different from their market value.

Given the material market value of The Woolmark Company's intangible assets are not recognised in the balance sheet as at the date of this Report, we have not applied this valuation methodology.

5.5 Amount on an orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders. The Woolmark Company operates as going concern and therefore, this methodology is not considered appropriate.

6 VALUATION ASSESSMENT

We consider in this section of our Report, the quantitative factors and our assessment of the "fairness" of the Transaction. These considerations should be read in conjunction with our comments on the qualitative aspects or "reasonableness" set out in section 7 of this Report.

In order to assess the fairness of the Transaction we have compared:

- the assessed value of The Woolmark Company having regard to the structure and operations as at May 2007; and

- the proposed Adjusted Net Total Consideration of $14.5 million net of transaction costs after tax.

Based on discussions with Management of the Company, Grant Thornton Corporate Finance has assessed the potential annual cost savings that may arise from the $5 million one-off redundancies expenses. Based on the terms of the SSPA, the value of these potential annual cost savings will be passed completely to AWI, given that the $5 million redundancies allowance is deducted from the agreed value of the Key Assets.

In order to normalise this one-off payment in our valuation assessment, we have conducted our assessment of The Woolmark Company on a stand alone basis as set out below:

- Included the assessed value of these annual cost savings in our assessment of the free cash flows of The Woolmark Company on a stand alone basis;

- Deducted the $5 million redundancy allowance from our assessment of the enterprise value of The Woolmark Company;

- Added back to the Total Consideration paid by AWI (i.e. $10 million) this one-off redundancy expenses of $5.0 million.

We set out in the following sections our valuation assessment of the fair market value of The Woolmark Company on a stand alone basis having regard to the discounted cash flow methodology.

6.1 Discounted Cash Flow Methodology

Grant Thornton Corporate Finance has determined that the discounted cash flow valuation methodology is an appropriate valuation method.

Cash flow based valuations involves discounting the future cash flows of a business at an appropriate discount rate and require consideration of the following factors:

- estimation of free cash flows having regard to historical and projected operating results, including sensitivity to key industry risk factors, future growth prospects and the general economic outlook;

- determination of a discount factor which will reflect a purchaser's required rate of return, risks inherent in the business, future growth possibilities and alternative investment opportunities; and

- separate assessment of surplus or unrelated assets and liabilities, being those items that are not essential to producing the estimated future earnings.

In assessing the fair value of The Woolmark Company using the discounted cash flow methodology, Grant Thornton Corporate Finance has adopted the following process:

- determined the normalised EBITDA for each of the operating business divisions being transferred to AWI;
- allocate to The Woolmark Company corporate overheads based on the current operations of the Company;
- assessed the level of cost savings arising from the planned redundancies and office closures; and
- assessed normalised level of capital expenditure and working capital consistent with perpetual growth rate.

6.2 Determination of Normalised EBITDA

We believe that the EBITDA is the most appropriate measure of underlying earnings and is readily comparable with both Australian and overseas companies and minimises the impact of different capital structures and accounting and tax treatment such as amortisation and depreciation.

Based on our analysis and enquiries to Management, we have assessed normalisation adjustments for the following divisions/activities in our assessment of normalised EBITDA of The Woolmark Company:

- Licensing
- Sportwool
- Optim
- Market Intelligence
- Product Marketing
- Technical Consulting

6.2.1 Licensing

We set out below the historical EBITDA of the Licensing division.

Figure 14: Woolmark EBITDA pre corporate overheads

Woolmark	Actual FY05 $	Actual FY06 $	Actual YTD07 $	Annualised FY07 $	GT Assessed $
Sales	17,683,421	17,100,683	15,444,285	16,848,310	16,974,497
COGS	(123,490)	(295,942)	(159,930)	(174,469)	(235,205)
Oveheads	(13,516,486)	(13,650,768)	(12,728,708)	(13,885,863)	(13,768,316)
EBITDA	**4,043,445**	**3,153,974**	**2,555,647**	**2,787,978**	**2,970,976**
Normalisation adjustment					
Brand Strategy	-	-	250,000	250,000	250,000
Normalised EBITDA	**4,043,445**	**3,153,974**	**2,805,647**	**3,037,978**	**3,220,976**

Source: AWS Management and Grant Thornton Corporate Finance Calculations

As shown in the table above, the financial performance of Licensing division from FY05 – FY07 has deteriorated with EBITDA of $4.0 million in FY05 decreasing to $2.7 million based on annualised FY07.

We have also normalised the reported EBITDA for non-recurring consulting fees relating to brand strategy amounting to $250,000 in FY07. We have been advised by the Management of the Company that no other normalisation adjustments were required.

Grant Thornton Corporate Finance has assessed the normalised EBITDA of the Licensing division as the average of annualised FY07 and FY06 historical results.

6.2.2 Sportwool ™

We set out below the historical EBITDA of the Sportwool division.

Figure 15: Sportwool EBITDA pre corporate overhead

Sportwool	Actual FY05 $	Actual FY06 $	Actual YTD07 $	Annualised FY07 $	GT Assessed $
Sales	1,932,006	2,033,365	3,230,097	3,523,743	4,228,491
COGS	(1,236,567)	(1,349,104)	(2,362,350)	(2,577,109)	(3,092,530)
Oveheads	(524,270)	(441,046)	(545,800)	(595,418)	(595,418)
EBITDA	**171,169**	**243,215**	**321,948**	**351,216**	**540,543**

Source: AWS Management and Grant Thornton Corporate Finance Calculations

Based on discussion with the Management of the Company regarding current growth opportunities and contracted revenue of Sportwool and having regard to the historical growth rate, we have assessed a revenue growth rate for Sportwool equal to 20%.

In line with the historical trend, we have also assumed a slight improvement of the EBITDA margin.

6.2.3 Optim ™

We set out below the historical EBITDA of the Optim ™.

Figure 16: Optim EBITDA pre corporate overhead

Optim	Actual FY05 $	Actual FY06 $	Actual YTD07 $	Annualised FY07 $	GT Assessed $
Sales	2,220,683	113,952	165,438	180,478	180,478
COGS	(1,130,496)	(36,994)	-	-	-
Oveheads	(414,011)	(7,615)	-	-	-
EBITDA	**676,176**	**69,344**	**165,438**	**180,478**	**180,478**

Source: AWS Management and Grant Thornton Corporate Finance Calculations

As discussed in Section 4 of this Report, Optim owns, in conjunction with CSIRO, a patent to produce the Optim fibre by subjecting the wool to a patented twisting and stretching process providing a permanent reduction in diameter of up to 3 micron. The revenue of this division is based on the number of machines sold each year. Historically, Optim has not been able to sell many machines due to a technical problem and the ability to meet a specific production rate.

No machine sales occurred in FY06 and FY07. We have been advised by the Management of the Company that the future business model of Optim will be established together with AWI.

Accordingly, we have assumed a normalised performance in line with annualised FY07.

6.2.4 Market Intelligence

We set out below the historical EBITDA of Market Intelligence.

Figure 17: Market Intelligence EBITDA pre corporate overhead

Market Intelligence	Actual FY05 $	Actual FY06 $	Actual YTD07 $	Annualised FY07 $	GT Assessed $
Sales	1,535,998	1,098,394	692,062	754,977	926,685
COGS	-	(1,990)	-	-	-
Oveheads	(986,025)	(810,090)	(724,505)	(790,369)	(810,061)
EBITDA	**549,973**	**286,314**	**(32,444)**	**(35,393)**	**116,624**

Source: AWS Management and Grant Thornton Corporate Finance Calculations

The Market Intelligence division is the leading provider of global wool industry market intelligence. AWI is the major client of the Market Intelligence division and historically it accounted for more than 50% of the revenue of this division.

Based on the performance over the last two years and the fact that a large reliance on one customer materially increase the risk of the business and reduces the quality of the revenue, we have assessed normalised EBITDA based on the average EBITDA in FY06 and FY07.

6.2.5 Product Marketing and Technical Consulting

We set out below the historical EBITDA of the Product Marketing and Technical Consulting divisions.

Figure 18: Product Marketing and Technical Consulting EBITDA pre corporate overhead

Product marketing and Technical consulting	Actual FY05 $	Actual FY06 $	Actual YTD07 $	Annualised FY07 $	GT Assessed $
Sales	2,726,670	4,253,579	478,523	522,025	522,025
COGS	-	-	(14,108)	(15,391)	(15,391)
Oveheads	(3,026,735)	(2,109,693)	(839,328)	(915,631)	(915,631)
EBITDA	**(300,065)**	**2,143,886**	**(374,913)**	**(408,996)**	**(408,996)**
Normalisation adjustment					
Test marketing	-	-	356,000	356,000	356,000
Normalised EBITDA	**(300,065)**	**2,143,886**	**(18,913)**	**(52,996)**	**(52,996)**

Source: AWS Management and Grant Thornton Corporate Finance Calculations

As set out in table above, we have normalised the reported EBITDA contribution for the non recurring consulting fees relating to test marketing amounting to $356,000 for FY07.

The decrease in revenues for FY07 is attributed to the reduction consultancy projects and product development commercialisation activities, which was primarily driven by AWI.

Grant Thornton Corporate Finance has assessed the normalised EBITDA of the Product Marketing and Technical Consulting divisions in line with annualised FY07.

6.2.6 Total Normalised EBITDA

We present below a summary of The Woolmark Company assessed total normalised EBITDA prior to allocation of corporate overheads.

Figure 19: Normalised EBITDA prior to corporate overheads

Normalised EBIT (pre-corporate overheads)	Section Ref	$'000s
Woolmark	6.2.1	3,221
Sportswool	6.2.2	541
Market Intelligence	6.2.3	117
Optim	6.2.4	180
Product Marketing / Technical Consulting	6.2.5	(53)
Total normalised EBITDA (pre-corporate overheads)		**4,006**
Depreciation	6.2.9	(232)
Normalised EBIT (pre-corporate overheads)		**3,774**

Source: Grant Thornton Corporate Finance calculations

Based on the above calculations, we have assessed the EBITDA of The Woolmark Company prior to corporate overheads at 4.0 million.

6.2.7 Corporate overheads

Grant Thornton Corporate Finance has assessed the level of corporate overheads with regard to the year to date expenses incurred by AWS relating to The Woolmark Company. On annualised basis corporate overheads have been assessed at $3.8 million. We have been advised by the Management of the Company that no seasonality should be factored into our assessment of annualised corporate overheads.

6.2.8 Cost savings arising from redundancies and office closures

Based on discussions with Management of the Company, Grant Thornton Corporate Finance has assessed the potential annual cost savings that may arise from the $5 million one-off redundancies expenses. Based on the terms of the SSPA, the value of these potential annual cost savings will be passed completely to AWI, given that the $5 million redundancies allowance is deducted from the agreed value of the Key Assets.

In order to normalise this one-off payment in our valuation assessment, we have conducted our assessment of The Woolmark Company on a stand alone basis as set out below:

- Included the assessed value of these annual cost savings in our assessment of the free cash flows of The Woolmark Company on a stand alone basis;
- Deducted the $5 million redundancy allowance from our assessment of the enterprise value of The Woolmark Company;
- Added back to the Total Consideration paid by AWI (i.e. $10 million) this one-off redundancy expenses of $5.0 million.

The Directors of AWS and AWI have not formally agreed a redundancy program and have not identified the total reduction in head count.

Based on the analysis of the total redundancy costs and office closure costs estimated by the Management of the Company, Grant Thornton Corporate Finance have assessed the potential annual costs savings attached to the one-off redundancy payment of $5 million to amount to $2.2 million.

Our calculation is based on the following assumptions:

- $1.8 million – related to a 25% reduction in employee head count;
- $0.4 million – related to executive headcount;
- the annual savings relating to office closures equal to approximately 30% of the current office costs; and
- Grant Thornton Corporate Finance have applied a 20% discount to the estimated costs savings, which reflects the risk of not achieving the estimated costs savings and the timing required to achieve them.

6.2.9 Other items

Grant Thornton Corporate Finance has assessed other adjustments to the normalised profit before tax to derive the free cash flow of The Woolmark Company as set out below:

- Tax payment – tax payments have been assessed at a rate of 30% based on the Australian corporate tax rate;
- Working capital –future changes in working capital are based on historical working capital ratios and take into account the perpetual growth rate assessed in line with the expected inflation (i.e. 3%);
- Capital expenditure –future capital expenditure has been assessed in line with the historical depreciation expense (i.e. maintenance capex).

6.2.10 Summary FCF

Based on the discussion sets out above, we summarise below our assessment of normalised free cash flow of The Woolmark Company.

Figure 20: Normalised Free Cash Flow calculation

Normalised Free Cash Flow calculation	**Section Ref**	**$'000s**
Normalised EBIT (pre-corporate overheads)	6.2.6	3,774
Less: corporate oveheads	6.2.7	(3,844)
Add: cost savings arising from redundancies and office closures	6.2.8	2,244
Normalised operating profit		**2,174**
Tax on normalised operating profit	6.2.9	(652)
Add back: depreciation (non cash)	6.2.9	232
Change working capital	6.2.9	114
Capital expenditure	6.2.9	(232)
Normalised Free Cash Flow		**1,636**

Source: Grant Thornton Corporate Finance calculations

Grant Thornton Corporate Finance's assessed Free Cash Flow of The Woolmark Company is equal to $1.636 million.

6.3 Determination of the Discount rate

We have assessed the discount rate based on the WACC. We have assessed the WACC of the Company at 13.6%. We set out below the main components of our WACC assessment. The cost of equity was assessed on the basis of the CAPM using the parameters set out below.

Risk free rate
It has been assessed at 6.14% which is based on the 10 year Australian Government Bond rate prevailing at 24 July 2007.
Beta
The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between returns on an investment and returns on the market as a whole. We have assessed the beta of The Woolmark Company having regard to the a beta for the industry of 0.86, which is based on the observed return on the Global Apparel Index relative to the Global Equities Index.

Risk premium
The market risk premium is the extra return received by investors as compensation for the increased level of risk associated with investing in the equity market as opposed to purchasing a risk free asset.

We have assessed the market risk premium equal to 6% as the arithmetic average return on the Australian market from 1974 to 2002. This return is in line with Ibbotson Associates assessment regarding the average return on the US market.

We have then applied a specific risk premium of 4% to the WACC in order to account for the additional risk premium applied to reflect the risk related to the achievement of the assessed EBITDA.

Cost of debt and debt ratio
We have assessed the cost of debt at 9.9% based on the weighted average interest rate on bank debt as set out in the AWS Annual Report for FY06. We have assessed the debt ratio of The Woolmark Company at 20% having regard to the target, optimal capital structure on order to maximise the returns to shareholders.

We have calculated a discount rate of 13.6% using a weighted average cost of capital ("WACC"). A summary of the WACC calculation is set out below:

Figure 21: WACC Calculation

WACC Calculation	**%**
Risk free rate	6.14%
Beta	0.86
Market Risk Premium	6.00%
Company Specific Risk Premium	4.00%
Cost of equity	**15.30%**
Cost of Debt	9.90%
Tax shield	2.97%
Net Cost of Debt	**6.93%**
Debt ratio	20.0%
WACC post tax	**13.63%**

Source: Bloomberg and Grant Thornton Corporate Finance calculations

This WACC is determined on the basis of a cost of equity capital of 15.3%, a pre-tax cost of debt of 9.9%, a tax rate of 30.0% (assuming a valuation of the Business in company form) and a debt to total capital allocation of 20% debt.
In our assessment of the equity value of The Woolmark Company we have also had regard to a perpetual growth rate of 3% in line with expected inflation.

6.4 Valuation Assessment

We set out below our valuation of The Woolmark Company having regard to a discounted cash flow methodology.

Figure 22: Valuation assessment of The Woolmark Company

Valuation assessment	Section Ref	$'000s
Free cash flow	6.2.7	1,636
Discount rate	6.3	13.6%
Perpetual growth rate	6.4	3.0%
Enterprise value		**15,853**
Less: agreed provision for redundancy	6.4.1	(5,000)
Add: assessed value of tax losses	6.4.2	1,130
Equity Value		**11,983**
Add: Control Premium	6.4.3	15.0%
Controlling equity value		**13,780**

Source: Grant Thornton Corporate Finance calculations

To determine the value of The Woolmark Company, we have adjusted the enterprise value derived through the capitalisation of free cash flow for the following:

6.4.1 Employee Redundancies

We have reduced our assessment of the enterprise value of The Woolmark Company for the one-off expense of $5 million required to be incurred in order to achieve the level of annual cost savings as set out section 6.2.9 of this Report.

6.4.2 Value of tax losses

As at 30 June 2006 AWS had approximately $12.5 million in carry forward tax losses that is available to be offset against any future taxable income. Given we have conducted an independent valuation assessment of The Woolmark Company on a stand alone basis, we have valued the potential tax benefit attached to the existing tax losses.

The potential tax benefit of these losses assuming a 30 per cent corporate tax rate amounts to $3.8 million. In our assessment of these tax losses we have applied a 30 per cent probability factor, which has regard to the historical financial performance of The Woolmark Company and the time required to utilise those losses. We have assessed the value of the tax losses as $1.1 million.

6.4.3 Cash balance and working capital deficit

As set out in figure 13 of this Report, the pro-forma balance sheet as at May 2007 of the net assets to be transferred to AWI includes the following:

- A cash balance equal to $5 million; and

- A deficit in working capital equal to $4.3 million including unearned income equal to $10.1 million.

The working capital of The Woolmark Company is affected by a large seasonality mainly related to the Licensing business due to the following:

- The license fees are invoiced in March of each year and paid by June. No additional material revenue is usually generated during the rest of the year in the Licensing division;

- As a consequence, the balance sheet of The Woolmark Company include a large unearned income amount which was equal to $10.1 million in May 2007;

- The cash balance as at May 2007 is not regarded as surplus cash given it is required to fund the expenses of the business over the following 12 months.

Based on the discussions set out above, we have not regarded the cash balance as at May 2007 as surplus cash for the purpose of our valuation assessment of The Woolmark Company.

6.4.4 Control Premium

As set out in the figure above, we have applied a premium for control of 15% in our valuation assessment of the equity value of The Woolmark Company.

Grant Thornton Corporate Finance believes that its assessment of the premium for control is consistent with the level of synergies achievable by AWI and with the quality of the assets of The Woolmark Company.

6.4.5 Sensitivity Analysis

The value of The Woolmark Company is sensitive to changes in key operating assumptions particularly in relation to the assessed level of FCF and the WACC.

We have set out a sensitivity analysis with regard to these variables.

Figure 23: Sensitivity analysis

Discount rate \ Free cash flow	1,356	1,496	1,636	1,776	1,916
13.1%	11,406	13,043	14,680	16,317	17,954
13.4%	11,024	12,622	14,219	15,817	17,415
13.6%	10,660	12,220	13,780	15,340	16,900
13.9%	10,313	11,837	13,361	14,886	16,410
14.1%	9,981	11,471	12,961	14,451	15,941

Source: Calculations

Grant Thornton Corporate Finance has assessed the value of The Woolmark Company within a range of $12.6 million and $14.9 million based on a discounted cash flow valuation methodology.

6.5 Control premium assessment

A control premium is appropriate in situations where an offeror is seeking to obtain the benefits associated with the ability to control the strategy and operations of its target and, in particular, the cash flows of that company.

In recent years, takeover bids for companies listed on the ASX have usually attracted premiums of between 15 and 40 per cent to the share market price at the time of the announcement of the bid.

A takeover or control premium is a market concept not a technical valuation methodology being an outcome of the valuation process rather than a determinant of value. A technical valuation assumes 100 per cent of the underlying assets of the company, rather than a premium for acquiring a controlling stake over the issued shares of a company listed on a stock exchange. A takeover or control premium is appropriate where an offeror can exploit the particular business so that a greater value is achieved, for example through operational synergies.

PS 74 states that the expert should give an opinion as to whether a vendor, the company or any other person will receive any premium for control as a result of the proposed Transaction.

Grant Thornton Corporate Finance have attributed a premium for control to The Woolmark Company due to the ability of an acquirer to control the cash flows arising from exploiting its unique businesses and other assets. We note however our control premium assessment is at the lower end of the typical control premium range due to the material deterioration in the performance of its major operating business unit being Woolmark over the past 3 years. Accordingly, Grant Thornton Corporate Finance's assessed control premium is 15%.

6.6 Valuation assessment of the Transaction – "fairness"

In our assessment of the fairness of the Transaction, we have assessed the value of The Woolmark Company on a control basis having regard to a discounted cash flow methodology. In our valuation assessment, we have applied a control premium equal to 15%.

We set out below a comparison between our assessment of The Woolmark Company on a control basis and the Adjusted Net Total Consideration.

Figure 24: Valuation summary of The Woolmark Company

	Low $'000s	High $'000s
Controlling equity value of The Woolmark Company	12,622	14,886
Adjusted Net Total Consideration (1)	14,475	14,475
Premium / (difference)	1,853	(411)
Variance	15%	-3%

Grant Thornton Corporate Finance Calculations

(1) The Total Consideration of $15 million has been reduced by the after tax transaction expenses assessed by the Management of the Company at $0.525 million.

Grant Thornton Corporate Finance has assessed the controlling equity value of The Woolmark Company between $12.6 million and $14.9 million. Our assessment of the controlling equity value is inclusive of a control premium of 15%

The Adjusted Net Total Consideration of $14.5 million falls within the assessed valuation range of The Woolmark Company. We note that any consideration above $12.6 million represents a fair value for the acquisition of The Woolmark Company.

Accordingly, in the opinion of Grant Thornton Corporate Finance, the Transaction is fair to the shareholders of AWS.

As the Transaction contains elements which we believe impact both qualitative and quantitative factors, we recommend the shareholders of AWS carefully consider the quantitative considerations in conjunction with the qualitative considerations set out below and detailed in section 7 of this Report.

7 ADVANTAGES AND DISADVANTAGES OF THE TRANSACTION – "REASONABLENESS"

In respect of the Transaction, we set out below a summary of the advantages and disadvantages to the shareholders of AWS. These qualitative factors should be considered in conjunction with the quantitative factors discussed above.

In respect of the Transaction, we set out below a summary of the advantages and disadvantages to the shareholders of AWS. These qualitative factors should be considered in conjunction with the quantitative factors discussed above.

We note that the Transaction is contingent upon a number of conditions set out in the sale and purchase and sale agreement which must be satisfied or waived before the Transaction can become effective. These include:

- passing of Resolutions as set out in the Notice of General Meeting and Explanatory Statement at the General Meeting;
- approval by the regulatory bodies including the ACCC and ATO;
- in relation to the IWS Pension Fund, the completion of the IWS Pension Fund Closure Agreement, execution of the Deed of Compromise and the UK Pension Fund Regulator issuing a clearance statement in relation to the issue of a contribution notice and a financial support direction; and
- the completion to the satisfaction of AWI of due diligence in relation to the tax affairs of the AWS and its subsidiaries.

Advantages

- The financial performance of The Woolmark Company has deteriorated materially over the past six years as set out in section 5.5 of the Explanatory Statement. If the Transaction is not approved, the financial performance of The Woolmark Company may deteriorate even further and it may affect the ability of the Company to sell its operating assets at market value and on a going concern basis;
- As set out in the SSPA, the Total Consideration payable by AWI to AWS is equal to $15 million less $5 million as a contribution to fund staff redundancies and office closure costs following completion of the Transaction. Based on discussions with Management of the Company, Grant Thornton Corporate Finance has assessed potential annual cost savings resulting from these one-off redundancies expenses. Our assessment of the equity value of The Woolmark Company takes into account the improvement in its financial performance as a consequence of these one-off redundancies expenses. It is unlikely that AWS on a stand alone basis will have the financial capacity and resources to incur up-front cash redundancies expenses of $5 million in order to achieve the assessed cost savings. Should our assessment of The Woolmark Company have regard only to the current financial performance, our valuation assessment of the equity value would have been materially lower;
- In our assessment of the equity value of The Woolmark Company we have included a perpetual growth rate of 3%. The historical growth rate of The Woolmark Company was lower than our estimate.
- As set out in the Explanatory Statement, the Directors are of the opinion that the current AWS business model is not sustainable, accordingly if the Transaction does not

proceed, AWS would in all likelihood move into administration or its assets would be sold to third parties. There is uncertainty if a sale of the Key Assets of the Company under these circumstances will give rise to a going concern valuation;

- We have been advised that based on the existing losses carried forward, AWS will not incur any capital gain tax as a result of the Transaction;

- As part of a competitive tender process, AWS may be able to obtain a superior offer for the Key Assets. However, Management of the Company have pointed out that the sale of the Key Assets to another buyer may raise the risk that the Key Assets may be deployed to promote wool grown outside of Australia, to the detriment of Australian woolgrowers. The Transaction provides shareholders with benefits that are not necessarily able to be quantified as part of the Total Consideration. In addition, given the different performance and features of the Key Assets, there is uncertainty regarding the ability of the Company to complete a combined sale of the Key Assets to a single potential purchaser. Under a break-up scenario of the Key Assets, the sale of the smaller and non performing assets may be challenging and with an uncertain outcome;

- We have been advised by Management of the Company that the majority of shareholders of AWS and AWI are common to both AWS and AWI. As set out in the Explanatory Statement, the Transaction provides an opportunity to reinvigorate the Woolmark certification trade mark (and the other Key Assets) as part of the new structure, whilst AWS did not have the necessary financial resources to do this effectively. We understand that AWI has committed to invest material resources to revitalise the Woolmark brand. The current shareholders of AWS will benefit from an improvement in the financial performance of the Key Assets and from a reinvigoration of AWS' statutory objectives following completion of the Transaction;

- The Transaction may allow for a more effective linking of research and development activities currently conducted by AWI with the marketing and commercialisation activities currently conducted by AWS;

- As a consequence of the current IWS Pension Fund Liability, AWS has a limited capacity to invest resources into the Australian wool market for the benefit of AWS Shareholders. Following completion of the Transaction, given AWS and AWI have common shareholders, AWI may have an enhanced capacity to reinvest profits generated from the operating activities of the Key Assets into the Australian wool industry;

- As set out in section 4.3 of the Explanatory Statement, the IWS Pension Fund deficit is equal to $22.1 million as at 31 May 2007 (prior to actuarial adjustments for year end and the effect of the obligations of the agreement with IWS Pension Fund Trustees). Contingent upon completion of the Transaction, AWS have agreed with the IWS Pension Fund Trustees to crystallise AWS' ongoing exposure to the IWS Pension Fund. The Directors of AWS are of the opinion that meeting the IWS Pension Fund shortfall in accordance with the agreed payment plan, together with a measured investment plan devised by the AWS Directors, presents AWS with the opportunity to provide AWS Shareholders a return on their investment in future years. Upon completion of the agreed repayment plan, AWS will have removed a material uncertainty from its balance sheet which may provide an enhanced capacity to distribute funds to its shareholders; and

- The IWS Pension Fund deficit is equal to $22.1 million as at 31 May 2007 (prior to actuarial adjustments for year end and the effect of the obligations of the agreement with IWS Pension Fund Trustees). The IWS Pension Fund Trustees have agreed, contingent upon completion of the Transaction, that the outstanding deficit will be satisfied by 3 annual payments in 2008, 2009 and 2010 totalling $13 million. In addition, the IWS Pension Fund Trustees will receive further payments after 1 January 2010 equal to 50 per cent of any net proceeds above book value from the sale/valuation of the Andar Holdings and Mumbai Property. Based on the structure of the payments agreed between the Management of AWS and the IWS Pension Fund Trustees, the actual consideration payable by AWS may be materially less than the IWS Pension Fund deficit as at 31 May 2007.

Disadvantages

- As set out in the SSPA, the Key Assets to be sold to AWI include the Sportwool trademark and business. As set out in Section 6.2.2 of this Report, Sportwool is in the growth phase of their business cycle and has recorded revenue growth of 73% for FY07. Following completion of the Transaction, AWS shareholders will not have the opportunity to benefit from the improvement in the financial performance of Sportwool. In addition, the price that may be achieved 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 Key Assets;

- The Directors noted that one of the possible reasons to vote against the Transaction was the belief that the sale of The Woolmark Company may obtain a higher price if sold on the open market. However, consideration should be given to the risks to Australian wool growers associated with disposing of The Woolmark Company to third parties that may pursue different statutory objectives;

- As set out in the SSPA, AWI is a tax exempt entity. Our assessment of the equity value of The Woolmark Company is based on the normalised free cash flow which includes tax payments at the corporate tax rate of 30%. Accordingly, The Woolmark Company value for AWI may be materially higher than our assessment as set out in this Report.

- AWS bears all the transaction risk and costs associated with the implementation of the Pre Completion Transactions as set out in the SSPA These Pre Completion Transactions include:

  - in relation to Woolmark Europe, the effective transfer of UK employees into a newly incorporated UK company on the same terms and conditions except as to superannuation arrangements; and

  - in relation to Mumbai Property, AWS take all necessary steps to procure the execution of the Mumbai Property Management Agreement;

- The Woolmark Company is a significant asset owned by AWS. The disposal of The Woolmark Company changes the nature of the investment for AWS shareholders. After completion of the Transaction, AWS will be an investment vehicle with approximately $25.3 million of cash under management as at May 2007 as set out in the pro forma balance in Section 4.7.2 of this Report. 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.

We have considered the likely advantages and disadvantages of the Transaction for the shareholders of AWS, and the advantages and disadvantages for the same shareholders if the Transaction does not proceed. It is the opinion of Grant Thornton Corporate Finance that the benefits, in the absence of an alternative proposal, that are likely to accrue to shareholders as a result of the Transaction outweigh the advantages if the Transaction does not proceed.

Accordingly, in the opinion of Grant Thornton Corporate Finance, the Transaction is reasonable to the shareholders of the Company in the absence of a superior offer.

In the opinion of Grant Thornton Corporate Finance, the Transaction is fair and reasonable to the shareholders of AWS.

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act 2001. The Financial Services Guide is included in Appendix F of this Report.

8 SOURCES OF INFORMATION, DISCLAIMER AND CONSENTS

8.1 Sources of information

In preparing this Report Grant Thornton Corporate Finance has used various sources of information, including:

- Notice of General Meeting dated on or around 3 August 2007;
- Sale and Purchase Agreement dated on or around 31 July 2007;
- Deed relating to the International Wool Secretariat Retirement Benefits Plan;
- Application for clearance with the Pensions regulator;
- AWS audited financial statements for FY04, FY05 and FY06;
- Management accounts for FY04, FY05, FY06 and YTD07;
- Discussions with the Management and Directors of AWS;
- Company and deal information sourced from Onesource and Mergermarket;
- Woolmark Company news letters;
- Woolmark Licence agreement;
- Woolmark Market Intelligence Reports;
- The Datamonitor, KSA, Euromonitor reports and
- Other publicly available information.

8.2 Qualifications and independence

Grant Thornton Corporate (NSW) Pty Limited holds Australian Financial Service Licence number 247140 under the Financial Services Reform Act 2001 and its authorised representatives are qualified to provide this Report

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, we considered the requirements of APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standards Board ("APES Board") and confirm that neither Grant Thornton nor Grant Thornton Corporate Finance are aware of any circumstances which compromise our independence to undertake this assignment.

Grant Thornton Corporate Finance and its related entities do not have at the date of this Report, and have not had within the previous two years, any shareholding in or other relationship with AWS (and associated entities) or AWI (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Transaction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Transaction, other than the preparation of this Report.

Grant Thornton Corporate Finance will receive a fixed fee based on commercial rates for the preparation of this Report. This fee is not contingent on the outcome of the Transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the Report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this Report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993.

8.3 Limitations and reliance on information

Grant Thornton Corporate Finance's Report and opinion is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this Report on the basis of financial and other information provided by AWS and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided to it by AWL and other experts through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our Report. Nothing in this Report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of AWS.

This Report has been prepared to assist the directors of AWS in advising its shareholders in relation to the Transaction. This Report should not be used for any other purpose. In particular, it is not intended that this Report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Transaction is fair and reasonable.

The Company has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by AWS's engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by AWS, which AWS knew or should have known to be false and/or reliance on information, which was material information AWS had in its possession and which AWS knew or should have known to be material and which AWS did not provide to Grant Thornton Corporate Finance. AWS will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

8.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this Report in the form and context in which it is included in the Notice of General Meeting and Explanatory Statement to be sent to the shareholders of AWS. Neither the whole nor part of this Report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

GLOSSARY

$ or A$	Australian Dollar
1HY	Half Financial Year
Andar Holdings	Andar Holdings Ltd
ACCC	Australian Competition and Consumer Commission
ATO	Australian Taxation Office
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AWI	Australian Wool Innovation Limited
AWRAP	Australian Wool Research and Promotion Organisation
AWS	Australian Wool Services Limited
CAPM	Capital Asset Pricing Model
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DCF	Discounted Cash Flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMH	Efficient Market Hypothesis
EUR	Euro
EV	Enterprise Value
FME	Future Maintainable Earnings

FCF	Free Cash Flow
FY	Financial Year
Grant Thornton Corporate Finance	Grant Thornton Corporate (NSW) Pty Ltd
MOU	Memorandum of Understanding
NTA	Net tangible assets
NPAT	Net profit after tax
PBT	Profit before tax
PS	ASIC Policy Statement
SSPA	Share Sale and Purchase Agreement
Sale Consideration	the $15 million consideration to be paid by the AWI for AWS's intellectual property and businesses (subject to adjustments as set out in the Sale and Purchase Agreement).
the Company	Australian Wool Services Limited
The Woolmark Company	The Woolmark Company Pty Limited
TWC Holdings	TWC Holdings Pty Ltd
USD	US dollar
VWAP	Volume weighted average share price
WACC	Weighted Average Cost of Capital
Woolmark Europe	Woolmark (Europe) Limited
WSIPL	Woolmark Services India Private Limited
YTD07	11 months to 31 May 2007

FINANCIAL SERVICES GUIDE

1 August 2007

1. Grant Thornton Corporate (NSW) Pty Limited

Grant Thornton Corporate (NSW) Pty Limited ("Grant Thornton Corporate Finance") carries on a business at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Australian Wool Services Limited ("AWS" or "the Entity") to provide general financial product advice in the form of an independent expert's report in relation to the proposed Transaction of AWS to Australian Wool Innovation Limited ("AWI").

2. Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3. General Financial Product Advice

In our Report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4. Remuneration

When providing the Independent Expert Report, Grant Thornton Corporate Finance's client is the Entity. Grant Thornton Corporate Finance receives its remuneration from the Entity. In respect of the Independent Expert Report, Grant Thornton Corporate Finance will receive from AWS a fixed fee based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section [x] of the Independent Expert Report). Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of the Independent Expert Report.

5. Independence

Grant Thornton Corporate Finance is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Practice Note 42 issued by the Australian Securities Commission (the predecessor to the Australian Securities & Investments Commission) on 8 December 1993. The following information in relation to the independence of Grant Thornton Corporate Finance is stated below (and also stated in Section 2 of the Independent Report).

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with AWS (and associated entities) or AWI (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Transaction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fixed fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993."

6. Complaints Process

Grant Thornton Corporate Finance has an internal complaint handling mechanisms and is a member of the Financial Industry Complaints Services' Complaints Handling Tribunal, No F-3986. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with the complaint can be referred to the Financial Industry Complaints Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for the Independent Expert Report and this FSG. Complaints or questions about the Explanatory Statement should not be directed to Grant Thornton Corporate Finance, which is not responsible for that document. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.