

2005 AGM Report

AAFL AGM 4 NOVEMBER 2005: SHAREHOLDER PRESENTATION SUMMARY FOR 2004 - 2005

- 616 alpaca growers, compared to 398 growers last year, sent 45.1 tonnes of fleece in the 2004/2005 clip year to AAFL. This included 42.1 tonnes of huacaya, the rest being suri. This was 35% more than the previous year. Seven growers donated a total of 3.9 tonnes of fleece to AAFL. A total of 43.1 tonnes was sold in 2004/05, including all older fleece stock.
- Two overseas trips were funded by the Federal Government, including visits to Italy, China, Peru, Chile and New Zealand, which helped to set strategic planning for 2006.
- Developed strategic relationships with both the Inca Group and Michell Group in Peru regarding ongoing fleece sales, manufacturing and product opportunities.
- Commencement of China registration for the AlpacaMark.
- Made sales to new export markets Latvia, The Netherlands and Italy.
- New strategic partner customers have been found and a significant broadening of the Company's sources of income has been achieved. China is a major new customer source and significant orders have now been received from a customer with close links to China.
- Now cleared out of all old stocks of fleece, including old AAFMO and Co-op stock.
- Opened up new fleece opportunities using a wider variety of our fleece by de-hairing, although this is costly.
- Worked with the Rural Industries Research and Development Corporation (RIRDC), the Federal New Industries Development Program (NIDP) and the AAA on a number of R&D projects, which included classing, scouring, fine spinning, yarn development, manufacturing, finishing and dyeing.
- Developed additional products to add to our existing range including jacquard rugs, socks and hand knitting, which will give us new opportunities to use some of our coloured fleece.
- Due to the result of a late winter the AAFL's strategic partners did not buy our fleece in accordance with indicated intentions. This has in turn highlighted the Company's reliance on too few and too narrow a base of strategic partner customers.
- It is now clear that the demand from customers in 2005/2006 is significantly improving.
- A large write down in raw fleece stock to the value of \$293,000 has been made to bring the stock value for 2004/2005 back to reflect alpaca fleece prices world wide (world wool, mohair and cashmere prices have also been depressed recently).
- So whilst year 2005 budgeted sales were \$715,729, actual sales achieved were \$511,267, resulting in an important loss of profit margin on these sales.

LOOKING AHEAD: 2005/2006

- With annual overheads and expenses reduced to a practical minimum of around \$350,000, it is clear the company needs sales of around \$1 million a year to break even at a modest profit percentage. This cannot be achieved in the medium term based only on raw fleece trading.
- Accordingly AAFL is now entering into a number of different ventures with established processors / manufacturers to enable greater profit margins to be achieved.
- To this end AAFL have negotiated strategic agreements in Peru for cheaper processing and buying back of products made from Australian alpaca.
- Some additional promising co-ventures with companies in China are also being investigated. Assisted by Government funding we have finalised a strategic plan for China and have nominated six organisations in the Shanghai area which AAFL's Managing Director plans to visit in December, together with two of our strategic partners, to begin

negotiations.

- The budget for 2005/2006 requires input of 71 tonnes of fleece. Accordingly all growers will be urged to support the Company's aims as much as possible, in the overall interest of promoting a viable Australian alpaca fleece industry - in which the AAA has a strong financial interest through its company Uniquely Alpaca Pty Ltd.
- There is an urgent need to raise additional capital to support the current business plan. All shareholders have been invited to participate in a 1:2 Rights issue at \$0.25/share.
- All current shareholders, including Australian Alpaca Co-operative Ltd, with the exception to date of Uniquely Alpaca Pty Ltd, have indicated an intention to take up their Rights entitlements before the statutory closing date of 25 November 2005. (Secretary's Note: 100% of all Rights entitlements were taken up by 25 November.)
- Further capital is required to recoup the \$293,000 write down in stock in order to restore working capital. The board will consider a further capital raising in early 2006, which will be used to expand the business.

At the 4 November AGM, shareholders suggested the following ways to gain additional support from alpaca growers:

- Try to get smaller growers to donate fleece to Regions, FLO/Regions organise collection, baling and freight dispatch to AAFL, AAFL provides clip report to grower, and pays cheque to Region 180 days after classing;
- Negotiate individual supply contracts from major growers.
- AAA might consider funding a wool press for some Regions.
- AAFL to give an award to top FLO at the National Show and Sale.
- Advertise in Alpacas Australia listing and thanking FLOs.
- Consider freight rebate / refund for donors of fleece.
- To communicate more often with growers, especially in relationship to success with sales of coloured and various grades of fleece and product.
- AAA & AAFL WORKING TOGETHER: POSSIBLE OPPORTUNITIES
- Marketing - pooling our resources to enhance the industry.
- Administration - look for synergies where we can both benefit, especially in IT.
- Communication - work closely together to keep growers informed.
- Ownership - The AAA's 40% ownership in AAFL, via its company UAPL, provides a significant indication and recognition of the importance of the Australian alpaca fleece industry; this percentage should be maintained.

Presented at the Commonwealth Club Canberra on 4 November 2005

It was this early work that set the basis for the commercialisation of the alpaca industry. It became clear, as the volume of the clip grew and the Co-op's strategic partners had more success and as further strategic partners came on board, that a new structure had to be put in place.

In early 2003 the Australian Alpaca Co-operative formed a business plan, stating that once there were enough partners in homeware and fashion in place it would cease designing, manufacturing, wholesaling and retailing, and concentrate on providing them with the best possible classed fleece at the volumes and timing they required.

The projections for the industry were rising from 30 tonnes of raw fleece per year to over a hundred tonnes by 2006, and with the clip growing at 20% annually it was vital that the fleece side of the alpaca industry was prepared and able to meet this rising demand.

This culminated with the forming of Australian Alpaca Fleece Ltd on 31st March 2004, which was carried out with

considerable expert help and support from members of the Australian Alpaca Association Council and its appointed Joint Project Working Group.

We all share the vision

“Australian Alpaca Fleece Ltd’s aim is to have the best and most professional fleece collecting, classing and sourcing organisation that is able to meet the customers needs, both in colour and micron, as well as satisfying grower needs in relation to the return for the fleece.” This new enterprise is supported by a network of fleece collection points around Australia, coordinated through the head office of the AAA at Mitcham, Victoria. Fleece is received at a new facility at Sunshine, Victoria. This building was strategically selected for its close proximity to freeways, airport and freight facilities, and is equipped for classing and re-baling of fleece for further processing or sale. The fleece is sold to a number of strategic partners who market their products nationally and internationally in the homeware and fashion areas of retailing.