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Dear Fellow Shareholders

The year to 30 June 2008 was one where the foundations were laid for the direction of AAFL for the next decade. Those actions were:

**Business acquisition.** Effective 1 April 2008 AAFL acquired the business of Neilson-IDE, which consists primarily of the importation and distribution of the top end Kuna label range of fashion knitwear in Australia. In a full year this business will add just over a million dollars to our sales. As the acquisition was made for equity in our company, Grupo Inca is now our largest individual shareholder, holding just over 25%. We welcomed Eduardo Casapia and Monica Polar to our staff; both have local and international experience with Inca. The acquisition will also make cost effective an office in Sydney, selling both our homeware and fashion products of Australian Alpaca Connection. The business incurred a loss of \$25,468 in the three months to June as their selling season finished at the end of March.

**Representative office in China.** Our Representative Office (RO) in China is situated in Shenzhen, a large manufacturing and distribution city close to Hong Kong. Whilst Ian Johnston did not move there until October, that timing had more to do with the visa problems associated with the Olympic Games than our business plans. Ian is supported by a Chinese speaking assistant. The RO is not a warehouse, it will have a display of product to facilitate Chinese distributors to assess our ranges, and raise their orders on Melbourne. Ian will not only work with Chinese retail groups, but will have responsibility for managing our relationship with other Asian distributors in Hong Kong, Japan and Korea. This initiative is doubly important as the sales into this territory are concentrated in the time of the year when local sales are down. Jenn Worland will be coordinating sales in Melbourne, Adelaide and Tasmania.

**Appointment of General Manager.** Michael Talbot has been identified as the public face of AAFL and prior to that the Alpaca Co-Op, a period of nearly eight years. We need an orderly transition as Michael winds down, and are delighted to have appointed Kaye Sutherland as General Manager, reporting to Michael. Kaye has a farming background, and many years in sales and management roles in the textile business in Australia and the USA.

**Board members.** Although the notice of meeting sets out details of those members seeking re-election, it is silent on the position of Bob Richardson. Bob was an initial board member and has contributed significantly to the growth and direction of your company. His knowledge of the industry, its development and problems, has been of great assistance as we moved forward. In addition to participating in board debate, he has occupied the position of Company Secretary and acquitted himself well in that role. Bob, you will be missed by your colleagues. Bob is not seeking re-election as he has served two terms, and although not in our Constitution, we have a governance policy that two terms for board members is appropriate.

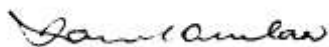
External to the company, there are actions of significance which will impact upon our business in the future.

The first is the on again off again closure of the scouring facility owned by CSIRO in Geelong. This decision affects all producers of rare fine yarns, coloured wool, mohair and cashmere as well as alpaca. Because of our volume, we reached agreement with Grupo Inca to scour fleece on our behalf, and then there was a long path through the biosecurity departments of the Peruvian and Australian governments. We were ultimately successful, and now ship approximately one container a month to Peru. However, we would like to scour some fleece in Australia to meet local manufacturing needs, so we hope that the new owner will re-enter the public market.

The second is the world volatility expressed through our exchange rate. Whilst we manage our US dollar exposure as well as we can through buying and selling in that currency, we ultimately need Australian dollars for our running costs. We cannot avoid some pain.

The financial result absorbed a lot of costs which will benefit 2009, but the ultimate loss of \$153,807 is bigger than we had hoped. We look forward to reporting a better result to you for 2009.

On behalf of the board



Ian Winlaw  
Chairman



Michael Talbot  
Managing Director

5 November 2008