



AUSTRALIAN
ALPACA

AUSTRALIAN ALPACA FLEECE LTD

Newsletter – March 2006

NEW AAFL BUSINESS INITIATIVES –

Some very important new marketing initiatives are now well under way as a result of the Board's decision, after consulting all shareholders last year, to broaden the Company's customer and product base, and to seek to participate in more 'value-adding' of alpaca fleece products. The prime aim is to seek greater profitability than is possible via the smaller margins from trading in available volumes of raw fleece.

After a very slow start this financial year, demand for nearly all fleece types has markedly increased in recent months, and AAFL is now holding firm orders for more than 10 tonnes of scoured fleece for delivery before June.

Our de-hairing contractor is working two shifts daily to meet our continuing orders for the lower-quality white and light fawn grades that are now in high demand for quilts and under-blankets. We now have forward orders for this product of two tonnes every month for an extended period, so we are very keen to receive as much of your W/LF skirtings and lower value broad and hairy fleece as you can possibly find!

AAFL is now looking to become involved in several collaborative wholesale ventures involving alpaca fleece products with established companies. More information about these will be provided in future Newsletters.

JO SHARP –

We are very excited about our new collaboration with the world-renowned Jo Sharp **yarn** company, based in WA. Jo Sharp's new high quality knitting pattern book will be distributed throughout the United States and through newsagents in Australia by the end of March, and it features the AlpacaMark throughout. We hope many members will purchase this book through the AAFL Office. (See ad in the next Alpacas Australia.)

RETAIL PRODUCTS –

The first retail products for the new jacquard program have arrived from New Zealand and the throws look fantastic. These products were made out of suri and wool in three separate designs. Stocks are currently available through the Australian Alpaca Barn. Please contact the AAFL office for more details.

The brushed throw rugs and scarves are selling as fast as we can produce them. We now have them all available in 17 colours and are currently producing an additional natural colour range of checks and stripes.

Four new styles of ladies knitwear are currently in production, including scarves, beanies and shawls for the 2006/2007 winter season. Many of these products are being produced for export as well as local sales.

ALPACA FLEECE EXPORT INITIATIVE: 'COALS TO NEWCASTLE'!

Yes, it's true: AAFL has recently exported 7.5 tonnes of scoured huacaya fleece to Peru, to be processed into a range of knitted products that will be sold in Australia and overseas under the AlpacaMark label. This is a 'win-win' for all concerned, because higher quality manufacturing by two long-established companies in Peru currently leads the world, according to AAFL MD Michael Talbot, who visited and negotiated with manufacturers in Italy, China, New Zealand and Peru last year. "Ever since the luxury Italian manufacturers transferred most of their production to China in recent years, Peru is where high quality alpaca products can most readily be found at present", Michael says. "I'm sure China manufacturing skills will quickly catch up, because they've already built some wonderful new textile factories there for mohair, cashmere and alpaca processing, all with the latest European machinery, so we'll probably be looking for joint ventures in China too soon", he said.

SURI NEWS -

We are pleased to advise that real progress now appears possible for the marketing of suri fleece in commercial quantities. We have sent an initial suri shipment to Peru for processing, and we're currently having manufactured there under the AlpacaMark a wonderful range of suri shawls. We have already produced a wonderful range of suri shawls that we hope will arrive in late May, which we can't wait to see!

FLEECE STOCKS AND DELIVERIES

Since July 1st we have received slightly more fleece than budgeted for this year – but somewhat less than we hoped from the estimated total Australian annual clip of over 100 tonnes! Surely, there must still be quite a lot of alpaca fleece sitting around in sheds out there? Remember that we're keen to get more fibre in to meet current orders that we'll accept it regardless of pre-classing – although naturally we'd prefer that growers try to provide fleece separated by colour and grade.

DELIVERED TO AAFL AS AT 24 MARCH 2006 -

Total fleece received since 1 July 2005 –
35,231 kg

Total fleece classed since 1 July 2005 –
24,548 kg

(The list below includes only fleece classed for individual growers that is identified by a Region. Significant further quantities have been/are being received from HBM, NSW Central (2574 kg est) NSW Southern and Queensland.)

NSW CENTRAL	293 kg
NSW SYD, COAST & HIGHLANDS	461 kg
NSW CC & HUNTER	502 kg
NSW HAWKS/BLUE MTNS	1055 kg
NSW SOUTHERN	3095 kg
VIC CENTRAL	3231 kg
VIC EASTERN	4865 kg
VIC WESTERN	1298 kg
WA CENTRAL	2710 kg
WA SOUTHERN	251 kg
SOUTH AUSTRALIA	3041 kg
TASMANIA	536 kg
QUEENSLAND	0 kg
STH QLD/NTH NSW	101 kg
OTHER/NO REGION	1882 kg
DONATED	1858 kg

Past Total Fleece Delivered to AAFL, AAFL:

2002/03 - 31,083 kg
2003/04 - 33,450 kg
2004/05 - 45,045 kg

Broad estimate of total Australian alpaca herd fleece production 2005/06:

90,000 alpacas x 1.4 kg = 126,000 kg,
increasing at 15% (?) annually

CLASSING CUT-OFF DATE FOR 2005/06 SEASON -

The Board has decided that any raw fleece deliveries arriving at Sunshine after 30 April 2006 will be held over to be classed in FY 2007. This is to enable stock valuations to be completed by the end of the financial year.

GROWERS WHO HAVE DONATED FLEECE TO ASSIST AAFL -

AAFL gratefully acknowledges the generous support of the many growers who have donated all or part of their clip to support the heavy demands on growth capital presently being experienced. All who have donated fleece are listed on the AAFL Website at www.australionalpacafleece.com.au

AAFL NEW DIRECTIONS INITIATIVE AND CAPITAL RAISING -

Following the last shareholders' meeting where a new business plan outlined a change in direction of AAFL, the following initiatives have been put into place:

- Created AAFL's own wholesale label
- Created a specialty label business for new customers
- Developed new strategic partners to supplement AAFL's existing strategic partners
- Extended Chinese/Peruvian export and import business
- Increased AAFL's annualised turnover rate to \$1.3 million pa
- Established an importing and exporting business covering fleece, products and yarn

AAFL needed to supplement fleece collection by developing a wholesale business, a

specialty label wholesale business and an importing and exporting activity. This was necessary to provide opportunities to increase profit margins and broaden the contribution to overhead costs, enabling the company to become both self-sufficient and profitable.

The base of AAFL's strategic partners has been increased and this, in conjunction with the other initiatives, has put heavy demands on the volume of fleece required to run the business. It's evident that the sales of Australian home wares and fashion products can be increased, given an accelerated drive into marketing. To maintain this growth the Company needs to embark on some limited importing of alpaca fleece and blending with fine wools to extend the volume of fleece available. The current demand created for Alpaca Mark branded products outweighs the current volume of fleece received from growers

A good example of new AAFL marketing initiatives is the introduction of the Jo Sharp alpaca hand knitting range, which sees the Company profile being promoted nationally and throughout the United States. Whilst the publicity is welcome, the volume of fleece needed to sustain these products on the world stage is a challenge. However, both AAFL and the Australian alpaca industry need to prepare for the future. As the Australian clip steadily increases, these are the customers needed for the Company to grow with as they expand around the world. The Alpaca Mark has developed into a valuable tool for marketing to the world the quality of products, their softness and handle, made from fleece from alpacas bred in Australia.

To manage an expanding business AAFL requires more money and additional staff. When dealing with overseas suppliers and processors, funds are needed to put credit facilities into place some time before the goods arrive. *Accordingly an Information Memorandum has been released in March to raise \$300,000 of new capital to assist Company development. To keep associated costs low this offer must be limited to a maximum of 20 shareholders in any 12-month period, including existing shareholders. After the expected future absorption of many new shareholders following the anticipated liquidation of the Alpaca Cooperative there could be the opportunity for more shareholder participation in a future Rights issue should the business expand as anticipated.* The major proportion of funds from this capital raising has been allocated for working capital increases. Warehousing and distribution

becomes another factor, but the existing well-situated Sunshine facility is adequate. AAFL needs funds to set up credit facilities to pay suppliers and processors for goods that the Company has already pre-sold. This is a most significant new development that is vital to the Company's business plan, and there is an allocation of \$220,000 from the issue for this. Overall, the possibilities for sustained growth are exciting; the whole Australian alpaca industry should appreciate a real opportunity for price of animals to be supported by the steady growth of a successful, profitable alpaca fibre business.

CONCLUSION –

Why does the board look forward with so much confidence? Some reasons are:

- Current fleece acquisition prices are set at a level that makes AAFL a serious world player. Why is that important? With growing acceptance of alpaca fleece as one of the world's important rare and luxury natural fibres along with cashmere and mohair, it is important that AAFL's downstream customers understand that they cannot source fleece elsewhere at prices materially different from Australian prices.
- AAFL is widening the range of strategic partners to cover more aspects of homewares, apparel and yarn, with emphasis on those who serve overseas markets as well as Australia.
- There are in place cordial and real trading relationships with other major international fibre collectors in Peru.
- AAFL is actively assisting its strategic partners to enter the Chinese market, where the Alpaca Mark is now registered. An allocation of \$15,000 from this issue has been made for further international registration of the AlpacaMark.
- After a detailed analysis, AAFL has selected a computerized stock control system that will combine better management control and better communication to growers. An allocation of \$25,000 from the issue funds has been made for this.
- The new fleece acquisition system has changed from an annual to a continuous review, allowing AAFL to move buying prices in tandem with the international market.
- The co-operative marketing initiative with

Jo Sharp will spread alpaca fibre as knitting yarn into a world market, while also promoting Australian alpaca in a widely distributed knitting book with an initial \$15,000 commitment by AAFL.

- Pieces, hairy and minor VM fleece are now being used productively after being de-haired by machine and processed into short staple products such as socks and quilts.
- Although it has been difficult to find markets for much of the coloured fleece produced by many growers, important new initiatives such as a jacquard fabric using brown suri and merino wool are now being successfully introduced.
- Markets for suri fleece are also being actively pursued. Several tonnes of suri fleece have been sent to Peru, initially for shawl manufacture and sale under the AlpacaMark.
- Provided the issue is fully subscribed, the funds will be allocated in the following general areas:

Financing of pre-sold finished goods and a new staff member	220,000
Marketing assistance with Jo Sharp yarn project:	15,000
Computerised stock control system	25,000
Further international registration of the Alpaca Mark:	15,000
Move office upstairs, create showroom downstairs:	15,000
Costs of the issue	10,000
Total issue	\$300,000

REGIONAL NEWS -

Southern NSW Great total collection and member support again this season. Thanks to Nestor Ellinopoulos who handed over FLO task to Bob Richardson at Yass.

Paul Haslin has kindly agreed to assist with a northern collection point at Canyonleigh.

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Western Australia Central Many WA Central growers and some from WA Southern are continuing to support AAFL and send their fleece through us. We appreciate the support

of our main collection centres, Murray and Judy Stannard at 'Encantador', Armadale and Pamela and Leonard Brown at 'Paradise', Gidgegannup. Pamela's paperwork efficiency is amazing. We collected just under 1000kgs in the carpark at our February meeting, having advertised that Kate would be there. That, together with further consignments collected or dropped off at our farm, means that we will have 9 pressed bales (approx 1400kgs) representing 22 growers that should have left our farm by the time this goes to print. This will be our biggest consignment this season.

We continue to encourage growers to clear out their sheds and try to get the message across that alpaca fleece is a commodity, as is wool, therefore fluctuation in price happens but unless the fibre is in the market place demand will not increase and neither will the price.

Kate and Geoff Fysh FLOs WA Central

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Central Western NSW Well our fleece collection is over for another year. In the last newsletter I mentioned that I anticipated we would collect more fleece than last year. What we did collect was far beyond my expectations – 2,574.85 kilos. I could not believe it. Some of it was pressed prior to the collection day and I thank all those who were able to do that, as this meant I only had one day's work. Collection was between 11am and 1pm and by noon "I was excited". People came from everywhere and it was pleasing to see people who have alpacas as herd guards bring in their fleece. There were so many fleeces that there was a queue waiting for the press. Everyone rallied together, members and non-members alike, weighing fleece, completing paperwork and helping to load the press.

It was hard work, on a very hot day, but worth every little bit of it and it made that beer taste even better at the end of the day.

There is a lot more fleece out there in our Region – the task ahead of me now is to convey to those breeders the importance of sending their fleece to AAFL. We must keep them going because without them – what do you do with the fleece? What is your "sales pitch"? What are the alpacas worth?

Kate Bailey – Secretary & FLO

ARTICLE SUBMISSIONS-

Please submit information you would like to share in this newsletter to:
 Stella Butler – info@anembopark.com.au
 Clearly identify in the subject header reference to – AAFL newsletter, so that your submission is not mistaken for virus or scam email.