

DEER INDUSTRY
NEW ZEALAND

ANNUAL REPORT 2006 - 2007



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HIGHLIGHTS

- Implementation of Venison Strategic Intent going well, velvet more of a struggle (page 4).
- Venison schedule moves above long term average (page 6).
- Impress Your Guests venison campaign steps up a notch (page 7).
- Chilled venison exports climb 73% in the past two years, increases in "out-of-season" chilled volumes (page 7).
- Cervena chef's promotion in US ramps up well (page 8).
- Processed velvet products marketed on Taiwanese and Chinese home shopping networks (page 10).
- Making the DIFFerence, the Deer Industry Focus Farm project properties identified (page 12).
- Natur0™ rings confirmed to confer good levels of analgesia (page 14).
- *RepairRx* trials showing some positive results (page 14).
- Venison Supply Systems research programme successful in receiving Government funding (page 14).



Chairman's Report

After four very difficult years, the New Zealand deer industry saw the beginnings of a market-led recovery in venison prices and a rebound in velvet returns during the year ended September 2007.

VENISON

Improved returns to deer farmers were a result of higher venison prices in the European market. Market prices improved for a number of reasons, not least of which was a decrease in the quantity of New Zealand venison exports of 21% or approximately 5,500 tonnes. However, one should not underestimate the impact of collective industry marketing to effectively position New Zealand venison. Deer Industry New Zealand facilitated 61 joint promotional projects involving matching commercial and industry funds to increase awareness, interest and sales of New Zealand venison during the period. Deer Industry New Zealand's *Impress Your Guests* campaign continued in its second year to position New Zealand venison in German retail as a healthy, tasty, easily-prepared red meat protein which can be enjoyed at any time of year.

One of the benefits of the four very difficult years was that the market for New Zealand venison has expanded as more people experienced New Zealand venison. Annual average venison production in the 10 years prior to 2002 was approximately 400,000 deer per annum. Most venison marketers would agree that the market could presently absorb 600-650,000 deer per annum. There is opportunity for market-led growth for the New Zealand deer industry. Promotional efforts must continue to break down the industry's reliance on the Hotel, Restaurant, Institution sector and overcome the seasonality barrier.

A highlight of the period was the continued strong growth in chilled venison sales. Sales over the past two years have increased by 73% to slightly over 5,000 tonnes. The industry's challenge will be to maintain this volume in the face of falling supply.

I am confident that the industry's Strategic Intent has served the industry well over the past three years. It will need to be adjusted as the shape of the New Zealand venison industry changes, and your Board has begun a process to ensure that the industry's Strategic Intent accounts for a lower production environment and "locks in" gains already made.

VELVET

Implementation of the Industry Velvet Strategy continued to be Deer Industry New Zealand's focus. Key to this is reducing reliance on the oriental medicine market in Korea. For further information, refer to the Velvet Report on page 9.

While velvet returns doubled to producers on a weighted average basis during the period, the key reasons for the increase were a perception of lower supply and an element of speculation in the Korean market. These price drivers are not sustainable.

The Board continues to be of the view that part of velvet's challenges are due to the auction-based system by which New Zealand velvet is sold. As such, Deer Industry New Zealand continued to facilitate an industry discussion on how New Zealand velvet is best sold. This resulted in the Velconz initiative which is a joint venture between PGG Wrightson and velvet suppliers to the initiative. Velconz is an opportunity for both velvet sellers and buyers to create a more stable marketing platform for New Zealand velvet. The Board believes that a stable marketing platform is absolutely required to support growth in the New Zealand velvet industry.

WHAT WE SAID WE'D DO... *Progress on the range of issues velvet faces, including how New Zealand velvet is best marketed (Velconz initiative) and how New Zealand velvet is branded in the Korean market.*

WHAT WE DID... *Agreement to establish Velconz by PGG Wrightson made in September 2007.*

Chairman's Report

PRODUCTIVITY STRATEGY

Deer Industry New Zealand is fully supportive of the industry's efforts to "get more calves on the ground, heavier and earlier", that is, a 10% improvement in both (1) the percentage of young deer born and available for sale or for use as capital stock and (2) their growth performance. This commitment was exemplified by Deer Industry New Zealand's commitment to fully fund Four Focus farms throughout New Zealand to encourage community learning and technology transfer. Several field days held at the properties attracted large numbers of producers and Deer Industry New Zealand hopes that momentum will build. See the Producer Manager's Report on page 11 for more detail.

DINZ'S FINANCIAL POSITION

Deer Industry New Zealand remains in a sound financial position, with Deer Industry New Zealand Group reserves of \$4,133,963 prudently built over the past three years to ensure consistent operating budgets in spite of likely lower venison levy income in a lower supply environment.

DINZ BOARD

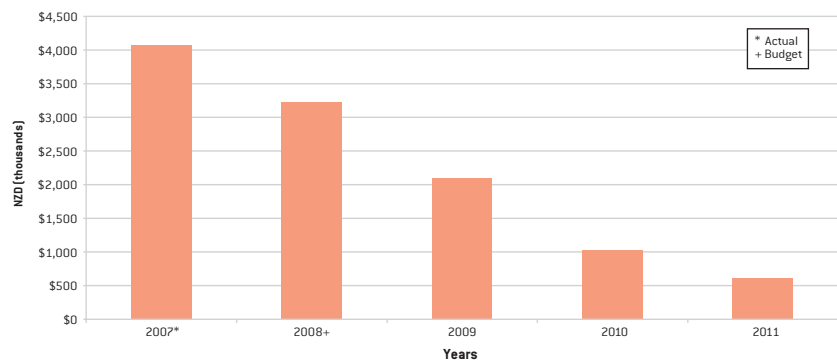
Jeffrey Pearse retired during the period and was replaced by Keith Neylon. I thank Jeffrey for his service and guidance to Deer Industry New Zealand over his nine years on the Board. I welcome Keith to the Board.

NOW MORE THAN EVER . . .

Deer Industry New Zealand and the industry must build on the gains made to date. There are ongoing and growing challenges such as resistance to change, competition from competing land uses, increasing costs of doing business and environmental considerations including climate change. To be economically relevant, returns from deer farming for producers, processors and marketers need to be higher over a sustained period so that the full potential of venison, velvet and co-products can be realised.

John Scurr
Chairman

DINZ Group Reserves



Board of Directors

APPOINTED BY THE NEW ZEALAND DEER FARMERS' ASSOCIATION



John Scurr

Wanaka, Otago

Chairman of: Cardrona Residents and Rate Payers Society; **Shareholder of:** PPCS Ltd; Velexco Ltd – a velvet marketing company Farms at Wanaka



Graham Carr

Geraldine, South Canterbury

Director of: Graham Carr [NZ] Ltd; **Shareholder of:** PPCS Ltd; Velexco Ltd – a velvet marketing company Farms near Geraldine



John Spiers

Waipukurau, Hawke's Bay

Producer representative on National Velvetting Standards Body; **Shareholder of:** Velexco Ltd – a velvet marketing company Farms near Waipukurau



Keith Neylon

Winton, Otago

Director of: 2C Management Limited; Antara Ag Limited; Blue River Dairy Limited; Cloudy Bay Aquaculture Limited; Grange Farm Limited; Impian Technologies Limited; New Zealand Deer Farms Limited; New Zealand Health and Nature Livestock Limited; New Zealand Thoroughbred Racing; Neylon Livestock Limited; Nucleus Assets Limited; Nucleus Management Limited; Southern Deer Corporation Limited Farms near Winton

ELECTED BY VENISON MARKETERS AND VENISON PROCESSORS



Stewart Barnett

Dunedin, Otago

Director of: Broadoak Limited; Global Technologies (NZ) Ltd



Andrew Duncan

Auckland

Director and Shareholder of: Duncan and Company Ltd; Duncan Processors Ltd; HDF Holdings Ltd; Matawai Deer Ltd; Velvet Antler Developers Ltd; **Shareholder of:** Otago Venison Ltd



Stuart Natrass

Geraldine, South Canterbury

Business Consultant

CEO of: AGRI Private Capital Fund.

Chairman of: Specialised Sales and Marketing; Global Horticulture Ltd; **Director of:** Fonterra Co-Operative Group; Pike River Co Limited; South Canterbury Finance; Wool Industry Network; Wool Services International; **Shareholder of:** PPCS Ltd Farms sheep, beef and deer

ELECTED BY DEER PRODUCT MARKETERS, DEER PRODUCTS PROCESSORS, VELVET MARKETERS, VELVET POOL AND VELVET PROCESSORS



John MacDonald

Christchurch, Canterbury

Chairman of: Velvet Processors Association

Director of: Bellbrook Investments Ltd; Cinema 3 Ltd; D4 Ltd; **Shareholder of:** Canterbury Antler Ltd – a velvet and co-product processor and exporter

INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

Deer Industry New Zealand indemnifies all directors named in this report, and current executive directors of the Group against all liabilities (other than to Deer Industry New Zealand or members of the Group) which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has directors' and officers' insurance.

CEO's Report



The year ended September 2007 was a period of solid work and achievement for Deer Industry New Zealand. Its primary focus remained on playing its part in the execution of the industry-agreed strategies for venison and velvet and the efficient provision of core industry services.

INDUSTRY STRATEGIES

The implementation of the Venison Industry Strategic Intent is proceeding well, with good support from New Zealand venison marketers and their partners offshore. They actively support generic campaigns such as *Impress Your Guests* in Germany and make a good investment of their own time and money in promotion often supported by the venison joint promotional programme. New initiatives such as *Pure New Zealand Cuisine* developed by Deer Industry New Zealand and a revamped *Cervena Plates* competition added to promotion in the United States.

The implementation of the industry velvet strategy is more of a challenge. This is due to a number of factors in the traditional velvet industry:

1. There is a lack of commercial leadership in the New Zealand velvet industry;
2. There is more of an ethos of trading rather than marketing by industry;
3. The velvet processing/export sector in New Zealand is not generally well financed; and
4. The number of trade barriers that exist and which cause the reported element of "gray trade" in velvet.

These challenges are neither new nor insurmountable. The Velconz initiative was developed during the period, and I believe that it needs to find its place as a force which galvanises the considerable talent and knowledge present in the industry among producers, pools, independent agents, processors and marketers to attack the first three factors above. That said, Deer Industry New Zealand has continued with a wide-ranging work programme including working with partners in Taiwan, China, Korea and New Zealand to develop sales of velvet outside the traditional Korean oriental medicine sector.

See the Velvet Report on page 9 for more information on promotional work.

RESEARCH

AgResearch, supported by Deer Industry New Zealand, secured government funding of \$1.5 million per annum for six years for the industry's "Growing Sustainable Venison Production Systems" programme, alongside a contribution of industry funds of \$400,000 per annum and \$100,000 from Landcorp Farming Limited per annum. This programme gives the deer industry a real opportunity to achieve its productivity improvement goals sustainably.

JOHNE'S DISEASE

Johne's Management Limited (JML) was incorporated during the period and had a successful first year of operation. Its purpose is to provide data to researchers and producers to allow the better management of Johne's disease in New Zealand and reduce its incidence. Systems and agreements for data collection are in place and data is flowing well. Data from JML is informing epidemiological trials on Johne's disease in farmed deer and will make future research more economical and effective.

OTHER INDUSTRY PROGRAMMES

The National Velvetting Standards Body Programme continued to run effectively to provide welfare assurances for velvet removal. The Code of Welfare for Deer Farming was approved by the Minister of Agriculture during the period, and was the first Code of Welfare approved in the pastoral sector. The industry Quality Assurance programmes and Industry Agreed Standards continued to

WHAT WE SAID WE'D DO... *Code of Welfare (Deer) enacted.*

WHAT WE DID... *The code was completed and gazetted on 17 May 2007.*

WHAT WE SAID WE'D DO... *Results and implications of 2006 industry survey on trends and intentions published.*

WHAT WE DID... *Industry Survey results provided in February 2007 edition of Deer Industry News.*

WHAT WE SAID WE'D DO... *Continued support of individual companies' promotional initiatives to build demand for New Zealand venison.*

WHAT WE DID... *61 promotional activities in 12 countries happened because of Deer Industry New Zealand funding.*

WHAT WE SAID WE'D DO... Continuation of local media strategy, efficiently generating coverage for venison in New Zealand food publications.

WHAT WE DID... Venison featured in *Essentially Food* magazine, the *NZ Herald*, and regional and national newspapers. Chefs demonstrated venison cooking on national television.

WHAT WE SAID WE'D DO... Deer industry input into the Animal Health Board's strategy review and continued progress to eradicate bovine Tb in New Zealand.

WHAT WE DID... A sub-committee of the DINZ Board established for input. Initial input and advice provided and will continue. Number of infected deer herds continued to be well ahead of targets.

provide a basis for commercial programmes and standards. Deer Industry New Zealand continued to provide input to the National Animal Identification & Traceability project at governance and technical levels. Progress has been slow due to the range of organisations involved, but is now accelerating.

STAFF AND ACKNOWLEDGEMENTS

There was no staff turnover during the period allowing for knowledge and momentum to build. Natalie Fraser joined the team as Marketing and Communications Assistant during the period and is doing a good job. I thank the Executive team for their hard work and sense of service to the New Zealand deer industry during the year.

It is risky to thank individuals because there is a large number of people who give their

time and knowledge for the benefit of the deer industry. However, I would particularly like to thank the Velconz Working Group and its Chairman, Ponty von Dadelszen, who was tenaciously committed to the establishment of Velconz. Also, the work done by the John's Research Group (JRG) under the leadership of Peter Aitken has yielded a wide range of important results in the battle against John's disease. As the JRG's funding becomes less certain, I hope a way can be found for their important work to continue.

CONCLUDING COMMENT

Generally, the macro environment for food production is positive, with more land and grain being used for food production and more consumers in China, India and Eastern Europe being able to afford higher quality food

as their incomes rise. Added to this positive environment, prospects appear positive for New Zealand venison given a shortening of supply from New Zealand and good market demand.

However, good management by industry and successful implementation of industry strategies are more important than ever as the industry begins to rebuild confidence and encourage investment in the industry to get back on a growth path. Deer Industry New Zealand is committed to playing its part in achieving this.

Mark O'Connor
Chief Executive

WHAT TO LOOK OUT FOR

- Development of a New Zealand and Taiwan working group to address issues and opportunities for both countries including the five tonne frozen velvet quota.
- More promotion in China, encouraging further uptake of New Zealand velvet and co-products.
- Potential joint research opportunities looking at the functionality of velvet with a Korean University/organisation – helping to improve credibility and trust in New Zealand deer velvet.
- Further promotion in Western markets including the USA and New Zealand through various media including television.
- Access of further processed velvet products into Australia.
- Marketing of New Zealand velvet as a pet supplement in New Zealand, Hong Kong, China and the USA.
- New and improved comprehensive promotional material including brochures, DVDs and velvet.org.nz website.
- Retail promotions in Germany and other European countries to cement New Zealand venison's place on European retail shelves.
- Changes in seasonal sales restrictions in Belgium.
- Co-operative promotions with other New Zealand food and wine exporters in the USA.
- Cervena participation in the biggest food show in America.
- Work with New Zealand food magazines to highlight the availability of venison in New Zealand supermarkets.
- Progression of Focus Farm implementation and integration with the "Venison Supply Systems" research programme.
- *Wound healing* – commercialisation package developed and presented to potential investors.
- *Welfare* – NaturO™ Rings: assessments of potential noxiousness completed and submitted to NAWAC, approval for continued use granted.
- *Co-products* – tail characteristics reviewed and possible opportunities to recover or add value to tail recovery at DSPs identified.
- *Deer health* – internal parasites in deer characterised and development of diagnostic tools initiated; age-related resistance of deer to John's disease field trial completed leading on to identification of genes for resistance/susceptibility.

New Zealand Venison – Avoiding the Bust?

WHAT WE SAID WE'D DO... *Cervena™ sponsorship of high-profile New Zealand culinary events.*

WHAT WE DID... *Pinot Noir 2007, Guild of Food Writers awards, National Culinary Competition, Hotel Recipe Competition.*

The year ended September 2007 saw an upswing in the venison cycle. Strong demand for New Zealand venison and a shortage of alternative game items in Europe coincided with the reduction in venison production in New Zealand, and saw prices climb throughout the year. Deer farmers received substantial increases in prices for deer as the venison schedule finally moved above the long-term average. However, competing land use and lack of confidence in the long term stability of deer farming meant that many farmers chose not to invest in the venison industry, and the national deer herd continued to contract.

The challenge for the industry is to extract more from the market to ensure venison production is an attractive investment option, while ensuring market pricing does not lead to buyer resistance and a fall in consumption.

This creates a tension between doing what will give the best price on the day and marketing products for longer term superior returns. Exporting companies' competition for livestock created a measure of procurement pressure during the period, which pushed prices up in the marketplace. New Zealand must now exercise caution to ensure that prices do not become too high for consumers and restaurateurs, or they will stop buying it. With distressing regularity, the New Zealand venison industry has seen this pattern repeated to the detriment of all: importers who face losses as they are left holding expensive stocks; exporters faced with an oversupply on a falling market; and farmers who bear the inevitable brunt of a market down-turn through lower livestock and schedule prices.

No one sector within the distribution chain has the power to create or avert the cyclical

nature of a commodity trade, but every actor in the chain can take actions which reduce the severity of the fluctuations of this commodity cycle.

Deer Industry New Zealand took action to assist stability and improve returns for the venison industry in 2006-07. Combining with venison marketing companies, DINZ continued to implement activities designed to achieve the aims of the Venison Industry Strategic Intent 2005-2009. As market conditions changed, the strategic objectives continued to receive the support of venison marketing companies who shared a common view that:

1. **reducing reliance on traditional markets;**
2. **lengthening the consumption period; and**
3. **increasing New Zealand country of origin identification**

are means of improving returns to the New Zealand deer industry.

1. **Reducing reliance on traditional markets. Diversification away from the restaurant sector in Continental Europe can be achieved by seeking new countries in which to sell, changing the product form, or changing the distribution channel.**

The strength of the demand for New Zealand venison in the traditional markets, and the strength of the Euro saw total exports to third countries decline in 2006-07 as New Zealand production declined. But many new customers were also retained where they were able to match, or beat, prices paid in traditional markets.

One of the key means of achieving this has been the efforts by New Zealand venison marketers to enter the retail sectors in Germany and other European markets with an affinity for game, sectors to which New



WHAT WE SAID WE'D DO... *Extension of the Impress your Guests promotions to other European markets to increase demand at retail and diversify markets for New Zealand venison.*

WHAT WE DID... *Translation of material into French, Dutch, and Danish. Retail promotions with a Dutch supermarket chain.*



Zealand has had relatively little exposure in the past.

Retail sales continued to grow strongly for exporting companies through the year with promotional support from Deer Industry New Zealand. Branded New Zealand venison was offered for sale across some of the largest retailers and public cash and carry stores in Germany including Karstadt, Metro and Edeka. Instore and outdoor promotions were organised by Deer Industry New Zealand to support sales of venison through these outlets.

Deer Industry New Zealand supported company sales activity directly through generic promotion of New Zealand venison, and also through the provision of joint promotion funds to support individual brand promotions. Activities were undertaken in 12 countries and results included:

- increasing sales in supermarkets;
- introducing venison to new customers;
- the introduction of new, branded venison items to supermarkets; and
- support for sales in New Zealand.

Sales of frozen venison to Europe decreased from 91 percent of total exports to Europe in 2004-05 to 79 percent in 2006-07. The total sales of chilled venison to Europe increased from 2,191 tonnes in 2004-05 to 4,193 tonnes in 2006-07.

- 2. Lengthening the consumption period. A market which consumes 80% of production in two months will be extremely vulnerable to oversupply. Stocks carried over from the season will be left on hand to compete with the subsequent year's production. Convincing consumers to eat venison at non-traditional times, and encouraging sellers to supply it, can reduce New Zealand's vulnerability to seasonal fluctuations in demand.**

Another advantage of increasing the period when people will eat venison is that a greater proportion can be exported in chilled form, for a higher price than can be obtained if it is frozen. This means a more level schedule for farmers, with a higher average throughout the year.

2006-07 saw a dramatic increase in exports of chilled venison from New Zealand and a substantial increase in chilled exports outside the normal season. The development of chilled products, and educating customers how to handle chilled venison in a controlled environment has allowed an increase in exports of these higher value items. The industry has a target of 4% of total exports to be exported chilled outside of the traditional game season. In 2006-07 this target was exceeded, with 6% of total venison exports being marketed in chilled form outside of the traditional season.

This success is a result of the marketing initiatives undertaken by exporting companies with the support of Deer Industry New Zealand. For example, Deer Industry New Zealand funded advertising to support trial sales of venison in Germany at Easter. An indication of the success of the trial was that the retailer re-ordered venison during the sales period, and re-ordered increased quantities for the following year.

Throughout the year, Deer Industry New Zealand continued to provide food writers at European and North American magazines with information and inspiration to persuade them to feature New Zealand venison in articles and recipe suggestions. Coverage for New Zealand venison was obtained in women's press, chefs' websites and on German lifestyle television programmes.

WHAT WE SAID WE'D DO... Further German retail development – local promotions across Germany highlighting the availability and quality of farm raised New Zealand venison to build retail sales.

WHAT WE DID... Retail promotions organised with seven German importers resulting in Impress Your Guests promotions. 105 instore tastings, accompanied by outdoor billboards, instore advertising and TV and radio advertorials.

WHAT WE SAID WE'D DO... Joint promotion of the nutritional attributes of venison with European deer farming industries.

WHAT WE DID... Other associations enthusiastic about the approach, but not forthcoming with funds. Instead, DINZ undertook a nutritional promotion using a well-known German nutritionist.

Venison

WHAT WE SAID WE'D DO... *Ongoing promotion of the attributes of Cervena™ to professional chefs in the United States to build sales volumes.*

WHAT WE DID... *A "Cervena Plates" recipe competition achieved publicity in top US food service magazines. Cervena was a star at the International Chefs Congress in New York. Demonstrations to seven top US culinary schools.*

3. Increasing New Zealand Country of Origin Identification. As New Zealand companies are doing work to increase retail penetration for venison, and encourage out-of-season consumption, it is important that New Zealand captures the benefits of increases in demand through these channels. The means of achieving this is to give the products a strong New Zealand identity, and create demand among buyers for venison from New Zealand.

The introduction of the *Impress Your Guests* logo in 2006, and the ongoing support for point of sale merchandising has seen an increasing willingness among importers and European manufacturers to label their venison products with a clear New Zealand origin.

Products which are packed in New Zealand for sale on European retail shelves carry the clear New Zealand company brand. But a

large and important part of the New Zealand business involves exporting venison for repackaging in foreign markets. There are many advantages to operating the trade in this manner. The foreign manufacturer may be using a well-recognised brand to package the goods, and distribution times can be shorter so goods are packaged to order rather than packed in New Zealand with a long lead time. A disadvantage of this sales channel is that the New Zealand origin of the goods is often lost. Deer Industry New Zealand and exporting companies worked with four manufacturing companies in Europe to get New Zealand origin onto their venison items. Discussions were commenced with three other companies to begin branding their manufactured products with clear New Zealand origin.

Examples of this included processed venison items for the Scandinavian market and ready to cook cuts for Dutch retail stores.



"Cervena's purity of flavor makes it a favorite choice for me. It has a taste that most beef cannot match, with a subtlety that everyone can enjoy. I have used Cervena from New Zealand for over 11 years and it has been on my menu at Public since day one."

**BRAD FARMERIE,
HEAD CHEF, PUBLIC, NYC**

cervena[™]
NATURAL TENDER VENISON



www.cervena.com

CERVENA™

The year ending September 2007 was important for Cervena, with the five licensee companies – PPCS, Alliance, Duncan and Co, Mountain River and Royal Cuisine International confirming their commitment to the Cervena appellation by agreeing a common strategy to promote Cervena in North America. This provided Cervena Trust Limited the confidence to extend the licensees' entitlement to use Cervena out to 2009. The extended licences provide licensees with greater assurance to invest in their Cervena brands in North America.

Exports to North America were hit by the weakening US dollar, the strengthening

European market, and lower New Zealand production as the year progressed. Nevertheless, exporters with long-term partners in North America remain committed to building the market for quality farm raised venison from New Zealand. Notable breakthroughs included the listing of New Zealand venison on the Ruth's Chris™ Steak House menu, a well received 'Cervena Plates' recipe competition which attracted quality entries from across the USA, and the instigation of the 'Pure New Zealand Cuisine' culinary education programme in conjunction with other New Zealand food and wine exporters.

Velvet

Promotion and Development Continues Apace

A wide range of work across markets identified in the Industry Agreed Velvet Strategy continued during the period with a number of very good developments including further progress in both Korea and China, and new initiatives in Taiwan and Western markets.

REPUBLIC OF KOREA

During the year ended September 2007, significant focus was placed on testing and developing the pilot concept of “velvet as a healthy food” in line with the Industry Agreed Velvet and Co-Product Strategy. Ginseng is an example of a traditional oriental medicine ingredient that has successfully made the transition from being a medicine to a food. The purpose of the work is to position the idea of velvet also being a “healthy food” with food manufacturers and consumers. Following the inaugural event at the Imperial Palace Hotel, subsequent events at both the Seoul Millennium Hilton and the COEX Intercontinental Hotel were well received. Further developments have begun to progress the concept into an attractive commercial proposition for a Korean food processing company. The high profile Executive Chef at the Seoul Millennium Hilton hotel developed a velvet based sauce which the hotel sold with their beef gift packs over the Chusok (Thanksgiving) holiday in September 2007. The hotel also included New Zealand deer velvet in a French-style soup in a similar way to the popular and healthy traditional “Sam Gye Tang” soup (chicken and ginseng soup). Feedback was positive.

Efforts from both within New Zealand and the New Zealand Embassy in Seoul continued during the year to address the Special Excise Tax which is currently imposed on deer velvet. Progress was made when a Bill addressing

the removal of the Special Excise Tax for deer velvet and royal jelly was submitted to the Korean Government’s Finance and Economic Committee on 30 March 2007. Disappointingly, the issue has not been resolved but remains on the Committee’s agenda for discussion. Deer Industry New Zealand sought to continue to improve relations with the Korean Deer Breeders Associations (KDBA). This resulted in two trips to New Zealand by KDBA farmer members in late 2006. The aim is to improve understanding of our respective industries and therefore outline the non-threatening and potential benefits to the KDBA in supporting the removal of the tax.

Development of new promotional material including a Korean language website (www.dinz.co.kr), informative brochures and DVDs are all designed to improve understanding of what New Zealand velvet has to offer and what makes it different – specifically New Zealand’s environment, animal welfare, processing and food hygiene standards.

TAIWAN

Taiwan is potentially a significant market for the New Zealand velvet industry. However, market access remains restricted with the imposed 5-tonne tariff rated quota on imported velvet. Work in this area is ongoing from both within New Zealand and Taipei-based New Zealand Government officials. A stronger



WHAT WE SAID WE'D DO... *Continued development of New Zealand velvet as a healthy food ingredient in Korea.*

WHAT WE DID...

- Promotions at the Seoul Millennium Hilton and COEX Intercontinental Hotels.
- New Zealand velvet sauce sold with Australian and Korean Beef as a gift hamper during “Chusok” (Thanksgiving).
- Development of a Korean language website especially for the “velvet as a healthy food” concept.

Velvet



WHAT WE SAID WE'D DO... Progress on a range of issues including how New Zealand velvet is best marketed and how New Zealand velvet is branded for the Korean market.

WHAT WE DID...

- DINZ initiated discussions regarding the way we sell velvet. A subsequent joint venture between PGG Wrightson and Velconz Holdings Limited has since developed.
- DINZ investigated methods of permanent physical identification of velvet. The Velvet Processors Association has been involved and the concept will be proposed to the Korean Deer Breeders Association in relation to their support on the abolishment of the SET.

relationship with the Taiwanese Deer Farmers' Association was initiated with a seminar at which Deer Industry New Zealand presented to approximately 200 government officials, academics, farmers and media in Taiwan outlining the benefits of increasing the quota and extending an invitation to the Chairman to visit New Zealand. A submission to informal economic consultations with Taiwan was well received, and a subsequent meeting with the Council of Agriculture has resulted in a tentative agreement to form a working group to address issues for both countries.

While access for frozen velvet currently remains limited, further processed products are entering the market and are being marketed through one of the country's largest home shopping networks. The home shopping network has made two visits to New Zealand to film New Zealand deer and the industry for their infomercials. Sales have been satisfactory for the home shopping network.

PEOPLE'S REPUBLIC OF CHINA

With access conditions improved as a result of a bilateral trade protocol for deer products between New Zealand and China, nine different products continue to enter the Chinese retail market. The company identified by Deer Industry New Zealand two years ago continued to increase sales and levels of marketing which include print media, expositions, email, websites, home shopping TV channels and product in major retail outlets such as Walmart, China Resources and Carrefour.

Deer Industry New Zealand took part in the Natural Products Expo in Hong Kong in June 2007. One specific outcome was that

a pet product company is now promoting New Zealand deer velvet supplements in Hong Kong and showcasing the product at expositions in China.

WESTERN MARKETS AND OTHER OPPORTUNITIES

Joint promotions in the United States were continued with support for a New Zealand company that is maintaining exposure of velvet supplements on the shelves of the world's largest sports nutrition retailer. Deer Industry New Zealand together with a velvet marketer attended the North American and Holistic Veterinary Conferences in January 2007. The purpose of the attendance was to enlighten animal health professionals about the attributes of New Zealand velvet, learn more about the market and secure distributors.

The "powered by velvet.org.nz" team took on a new form with the addition of top level triathletes, a world champion surf sports competitor and an up and coming swimming star. The adventure race team competed successfully in China earning 5th and 2nd placings in their two events.

With reports of misrepresentation and adulteration of New Zealand velvet products in New Zealand's main markets, Deer Industry New Zealand investigated ways of reliably identifying New Zealand velvet in the market as a means of ensuring product integrity. Analysis using Isotope Ratio Mass Spectrometry was identified as a potential method which could differentiate between velvet grown in different countries. An agreement for a pilot trial was signed during the period and this method will be trialled in 2007-08.

The sale of further processed deer products in New Zealand's closest market, Australia, is currently restricted and requires registration of all products through the Australian Therapeutic Goods Agency. When New Zealand rejected the proposed Australia New Zealand Therapeutic Products Act (ANZTPA) in 2007, Deer Industry New Zealand approached an Australian consultant to assist in developing a case to enable New Zealand deer velvet to be listed on the Australian "Permitted Ingredients List" allowing it to be included in health supplements and complementary medicines. This project is ongoing.

VELVET RESEARCH

VARNZ – the industry partnership with AgResearch is continuing to manage the development of a wound healing product. Small animal trials were completed with some encouraging results. Following on from the go/no-go point of September 2007, VARNZ is now considering next steps for a pathway to commercialisation and Deer Industry New Zealand has committed funding for the next year with a view to seeking commercial perspectives on the extract.

In another research area, VARNZ is funded research on the use of NaturO™ rings to ensure their continued use and acceptance by the National Animal Welfare Advisory Committee (NAWAC). Full results from two seasons' trials will be presented to NAWAC in June 2008, but results from the first year are encouraging and indicate that the rings confer a good level of analgesia similar to that of a chemical anaesthetic (lignocaine).

WHAT WE SAID WE'D DO... Promotion and market development of New Zealand velvet in China through joint promotion.

WHAT WE DID...

- Continued support in China in the marketing of nine different New Zealand deer products. Exposure via print, internet, TV, email, expos and over 300 retail outlets in 12 cities and five provinces.
- Joint promotion with Hong Kong-based company to promote New Zealand deer velvet as a pet supplement.

Producer Manager's Report



REPRESENTATION

The Producer Manager continued to provide a high level of service to the New Zealand Deer Farmers' Association (NZDFA). The Producer Manager had a high level of visibility at the community, Branch and Executive Committee levels. He attended the majority of NZDFA Branch Annual General Meetings and numerous branch meetings throughout the year. The agreement between NZDFA and Deer Industry New Zealand allowed for the activities of various industry working groups, including the Selection and Appointments Panel and NZDFA Executive Committee as a priority. The traditional Branch Chairmen's meetings in November 2006 and May 2007 were also partially funded, which allowed the development of a comprehensive programme of guest speakers and exclusive time with DINZ Board members in open forum and discussion. This was one of the most comprehensive contact points with the industry leadership and executive. The value of this meeting continues to strengthen, and now includes formal sessions with the Deer Industry New Zealand Executive (typically following market travel), the AHB Executive and Government and industry sector representatives, for example first hand dialogue with the National Animal Identification & Traceability Committee, Department of Conservation, Velvet Antler Research New Zealand Ltd, *et cetera*. In addition there were several targeted working groups, including a Regional Animal Health Committee working group which spends a full day with the AHB executive, a DEEResearch

working and feedback group, the DEER Select steering committee and a Productivity Working Group. These groups had another successful year targeting specific issues with the skills of passionate people who contribute time and knowledge freely for the deer industry's benefit and have a respected and strong dialogue with the various organisations.

COMMUNICATION

Communications and support at Branch level continued to be a major part of the Producer Manager's portfolio, especially with the current level of activity in developing the individual Focus Farms and with the winding down of the Johne's Research Group's formal activities.

Deer Industry News continued to provide producers with detailed information across a wide range of issues. The publication has gone from strength to strength since its beginning in 2002.

INDUSTRY CONFERENCE AND OUTCOMES

The well-attended 2007 Deer Industry Conference was held in Hamilton in May, and returned to the extended format with a conference theme of *Innovation*. That theme was no better shown than through the welcome function presentation of venison versatility as an entrée feature over 5 dishes matched with appropriate wines or beer.

Extending the *Innovation* direction also allowed conference discussion to cover the growth of chilled sales and retail market development for venison, traceability and its implications, challenges of a certain reduction in production numbers and ongoing discussion on developing a different approach to velvet antler marketing.

Company presentations were again a feature of the Deer Industry New Zealand Formal General Meeting, establishing a strong message of confidence in the forthcoming venison season. Associated with this, producers were urged to consider long-term commitment with companies that had worked hard to meet the production demand over the past difficult seasons.

NATIONAL ANIMAL IDENTIFICATION AND TRACEABILITY

The industry conference gave direct feedback in relation to traceability and the National Animal Identification and Traceability programme (NAIT), confirming that producers expected further consultation on any timeframe and mandatory implementation of a scheme for deer, and assurances that the technology proposed will work practically. Those views were represented by the Producer Manager through NAIT's Technical Advisory Group, and the Deer Industry New Zealand CEO's role in the NAIT Governance Group. Further practical trial work is planned for 2007-08 with consultation also part of any government role (MAF and MAF Biosecurity

Producer Manager's Report



New Zealand) in developing regulations required for mandatory adoption.

Shortly after the end of the period, NAIT was in the process of applying to Treasury for further funding for development and implementation on a voluntary basis for cattle and deer, with the outcome expected to be finalised in early 2008. While there is some difference in view between the NZDFA and Deer Industry New Zealand over the urgency of need for electronic tracing systems, there is commitment to be involved in discussions on the proposal and also commitment for in-plant and on-farm trialling of the systems, and strong links with the Animal Health Board to ensure that their needs and industry needs are served in common.

PRODUCTIVITY STRATEGY AND FOCUS FARMS

Following Deer Industry New Zealand's review of the venison marketing programme and the fit with agreed productivity strategy, Deer Industry New Zealand announced in July that it would fund the full budget for each of the four new Focus Farms. Deer Industry New Zealand's view was that local initiatives would be better directed into practical support, securing local and nationally based sponsorship and ensuring field day support to extend technology transfer and uptake was spread as far as possible.

The "more calves on the ground, heavier and earlier" message as the key target of the productivity strategy was well accepted and formed the basis of Focus Farm selection in all regions. The confidence behind this was boosted by the successful combined AgResearch bid to the Foundation for Research Science and Technology (supported by industry), broadly titled "Growing Sustainable Venison Production Systems". The Focus Farm project is embedded in Objective 2 of this six-year project, and will

also support further research and extension activity into the effects of parasitism on-farm.

AgResearch in turn is investing staff time and full resources into each individual farm project as part of the Focus Farm steering group.

The project has been branded as "*Making the DIFFerence*, The Deer Industry Focus Farm project", and owes its base model to the successful Meat and Wool New Zealand monitor programme, for a major deer emphasis.

The year saw movement from planning and development stages into concrete working projects. Introductory and community open days were held on three properties shortly following year end.

A particularly pleasing aspect was the enthusiastic commitment of the relevant regional councils to support the environmental management aspects of the project with resources, staff and expertise, allowing the sustainability message to be incorporated along with the clear need to analyse bottom line profitability and its fit with other land use options.

The productivity strategy recognises that productivity success must be measured in economic indices related to carcase returns per hectare, cost of production per kg of dry matter consumed, per hectare economic performance and the planned timing of carcase supply against a variable seasonal schedule. Integrated livestock management will contribute to greater profitability, and provide insight into the risks (cross species parasitism and disease, e.g. Johne's disease) and benefits accruing from better pasture management utilising mixed enterprises. These aspects have been incorporated into the farm selections.

Properties identified to date are:

- 1) Northern Regions, Rotorua District. Dave Dewar and Kay Garland, Facilitator Mark Macintosh (AgFirst), Robin Hopkirk and Community Group Chairman Andy Mitchell.

WHAT WE SAID WE'D DO... *Launch of four Focus Farms in 2007 (South and North Canterbury, Hawke's Bay, Central Plateau/upper North Island).*

WHAT WE DID... *Three Focus Farms launched. NZDFA Canterbury branch yet to confirm a farm.*

WHAT WE SAID WE'D DO... *Department of Conservation fencing issue fairly resolved.*

WHAT WE DID... *DFA and DINZ made strong submissions to the game status panel and the whole issue awaits outcome of the game status review panel's recommendation on the legal status of game, to be reported to the Minister February 2008. Dialogue continues with all parties involved.*

This 169ha property (155ha deer fenced) features breeding and predominately finishing crossbred deer primarily, and is an additional part of the owner's working life. Its 2000 deer stock units are mainly bought-in weaners for finishing, primarily for one season, with some carry over and the flexibility to stock up in winter and early spring. The project will target improving an already high 90% calving performance, parasitism's impact on growth, more use of strategic cropping and improvement of feed quality, and features dual facilitation with the project overseer calling on the specialist deer veterinarian to lead discussion on deer health programmes, and identify areas for future management change and efficiencies.

2) *Central Regions, Hawke's Bay. The Steyning, Tim Aitken and Lucy Robertshawe, Facilitator Richard Hilson and Community Group Chairman Mike Holdaway.*

The Steyning property is currently developing a summer autumn forage crop programme based on advice from Massey/AgResearch and the commercial seed industry. The property also features a self-feeding silage pit system that is new for the area. Hawke's Bay Regional Council has committed staff to the community group and will focus on water quality and over wintering programmes.

Overall, the large property (316ha) is a summer safe but winter wet breeding and finishing unit, integrated with bull beef production. The farm management has concentrated on sustainable deer farming and features as an example of an Environmental Management System in the deer industry's Landcare Manual.

3) *Canterbury. TBA, Facilitator Peter Bradley (Macfarlane Rural Business) and Community Group Chairman Mark Shadbolt.*

This region has not been able to confirm the central farm as yet, but has had some excellent interest and response from around

the region. The facilitator and community group have developed a further series of farms to contact and to extend the recruitment process with a view of being ready to go in March 2008. It is proposed that an intensive dryland unit in North Canterbury will act as a specialist satellite farm featuring a well planned approach to breeding management in a dry climate.

4) *South Canterbury. Ross and Sally Stevens, Facilitator Nicky Hyslop (Macfarlane Rural Business) and Community Group Chairman John Acland.*

An extensive hill country station, *Whiterock Station*, Rangitata Gorge, has been chosen. The property features above average performance, and while the area has its own climate challenges, features sheep and cattle and is a breeding (1000 hinds) and finishing property. Record keeping and monitoring are well advanced. The 1300 ha property's transformation from a store stock to a breeding and finishing unit has allowed some specialist cropping and pasture development work. Immediate goals are to maximise added value to yearling venison deer, genetic improvement, reproductive success, beginning implementation of hill country development and to review overall farming strategy in terms of best use of the resources of land area, stock type and stock policies to allow the best fit of resources, capability and earning potential. Over time, this Focus Farm will also investigate the possibility of adding a finishing property to business and how to effectively build a feed buffer to better cope with difficult winters and summers (cropping and pasture development).

The 2007-08 year promises to be a major step forward in technology transfer and demonstrating what is possible in sustainable and profitable deer production as a result of these projects and the community interest already shown.



Research



Research expenditure in 2006-07 amounted to \$885,014 or 17% of total expenditure – a reduction of 6% compared with 2005-06. This was broken down as follows:

- Expenditure on **DEEResearch** activities of \$580,359.
- Expenditure on **Velvet Antler Research New Zealand Ltd (VARNZ)** activities of \$304,655.
- A grant was made to the **Game Industry Research Trust (GIRT)** of \$950,000 for research in 2007-08.

Overall the \$885,014 invested in research by industry leveraged a further \$12.2 million in funds from government (FRST) and other pastoral industries (via research consortia), giving a ratio of almost 1:14 (for every industry dollar invested in research, a further 14 dollars are provided from other sources). The amount of leverage varied between projects with some projects being 100% industry-funded while the research consortia leveraged 1:100 and 1:160.

GAME INDUSTRY RESEARCH TRUST

Trustees: *Graham Carr, Andrew Duncan and Stuart Natrass.*

GIRT receives and considers funding of projects submitted by DEEResearch and VARNZ. GIRT funded all research expenditure in 2006-07.

VARNZ

Board: *William Rolleston (Chairman), Mark O'Connor (DINZ), Jimmy Suttie (AgResearch), Doug Wilson (Independent)*

This year the VARNZ Board concentrated on maintaining momentum in the wound-healing programme (*RepairRx*) and this appears to be bearing fruit with some positive results with *in-vivo* (pig) trials. Welfare and Food Safety research has also continued and results were presented at various conferences, field days

and to the National Animal Welfare Advisory Committee. This work is continuing and in 2006-07 included:

- **Wound healing** – Four pre-clinical trials were conducted in rats and pigs in New Zealand, France and Canada. One looked at safety (local tolerance) and demonstrated the velvet extract was well tolerated when injected subcutaneously, with fewer signs of local intolerance than a comparable commercial product. The other three were efficacy trials and investigated quality (scarring) and rate of wound healing. Two of these showed very positive results (for quality and rate of healing) while in the third, neither the extract nor the commercial product used as a “positive” control produced any improved rate of healing that was statistically significant over non-treated controls.
- **New directions** – A number of new bioactive compounds from velvet have been identified. These may have medicinal/health uses other than wound healing; however the level of activity has been lower than that for the wound healing extract. In small animal trials, grafted antler “stem cells” have produced antler-like growth; this model will be used to identify the process of antler growth regulation (antler regeneration and shedding).
- **Welfare** – NaturO™ Rings: cable-tied method appears to produce good levels of analgesia within 30 minutes (note that NVSB recommendations specify one hour which will ensure that analgesia is achieved). Noxiousness assessments will follow in 2007-08.
- **Food Safety** – Designing a tourniquet method/device that ensures a minimum force (2 kg) for tourniquets to minimise lignocaine levels in velvet.
- **Co-products** – Reviewing safety, composition, processing and usage of co-products to assist with requirements for registration for use in New Zealand and Australia.

With many of the projects due to finish next year VARNZ began developing a research strategy that integrates the industry strategic intent with research capability. Industry input is being actively sought and this will continue in 2007-08.

Funding issues occupied much of 2006-07 and a major challenge for VARNZ in 2007-08 is the cessation of government funds for AgResearch to carry out velvet-related research. VARNZ will continue to seek alternative arrangements to maintain industry velvet-research capability, but acknowledges that reduced funding will impact on its ability to fully cover all areas of research.

DEERESearch

Board: *Collier Isaacs (Chairman), Noel Beatson (DFA), Peter Benfell (AgResearch), Margot Buick (AgResearch), Graham Barrell (Universities – retired 1 May 2007), Frank Griffin (Universities – appointed 1 May 2007), Graeme Keeley (Venison Processors/Exporters), Mark O'Connor (GRH/DINZ)*

The much-anticipated industry-led on-farm research programme (“Venison Supply Systems”) was successful in receiving government funding for six years, commencing 1 October 2007. DINZ is pleased to report that the transition of many of the DEEResearch activities into this programme has been smooth, but cautions that Johnes’s disease, greenhouse gas issues and venison processing research will require increased attention in the new (2007-08) year.

Research funded by DEEResearch in 2006-07 included:

- **Productivity** – strategies to achieve early calving, control of gestation length, early-breeding gene identification, integrated livestock systems, Pastoral Genomic consortium (improved ryegrass and clover).
Early calving: Four key drivers that offer

potential to advance calving date are:

i) nutrition and management of the hind around weaning; ii) nutrition of the hind in the third trimester of pregnancy; iii) stag joining date; iv) genetics.

On well managed farms, management practices of early stag introduction, early weaning and enhanced hind nutrition around weaning and during late pregnancy have minimal effect (< 5 days) on advancing conception date and calving date in red deer hinds. The most significant gains in calving date are likely to be achieved through herd genetics, with the Eastern genotypes offering significant opportunities

Integrated livestock systems: A "pilot" project leading into next year's Venison Supply Systems programme that concentrated on developing urine sensors combined with GPS technology to track nitrogen distribution of deer when mixed with other species.

- **Deer Health** – Johne's disease (JD) management options and risk factors, vaccination and hind-fawn transmission of Johne's disease, internal parasitism of deer.

JD management options and risk factors: A negative relationship was observed between sheep and JD in young deer (suggesting grazing sheep with deer may be protective), while there was a positive association with irrigation and cattle (i.e. more JD present on-farm is likely).

JD vaccination: Trials have confirmed an expectation that oil adjuvanted whole-cell vaccines give some protection against clinical disease and reduce the severity of subclinical disease, but do not produce immunity. However vaccination caused varying degrees of interference with Tb testing in deer.

Internal parasitism of deer: Trials initiated in 2006-07 and will continue into 2007-08.

- **Sustainability and the Environment** – Greenhouse Gas consortium (methane and nitrous oxide reduction), stream recovery and the effect of different wintering systems on mud-caking of deer, use of OVERSEER (nutrient budgeting) for deer.

Methane reduction: A paper submitted to the NZ Journal of Agricultural Research (and recently published) has shown that methane yields and production of deer less than one-year old appeared to be 26% lower than previous measurements of adult deer. It is hoped this difference can be incorporated in the national greenhouse gas inventory.

Stream recovery: Fencing-off significantly improves water quality for nitrate and ammonium nitrogen, particulate and total phosphorus and suspended solids, but not for *Escherichia coli* or dissolved reactive phosphorus. Fencing-off and planting is an expensive exercise but may be cost-effective where there is a large catchment area relative to the receiving waterway, however the effectiveness of a fenced-off/planted area for settling out contaminants will have a limited lifespan.

- **Market Access and Development** – In a comparison of four stock washes one stock wash was more effective than a water wash at reducing clostridia spores from deer pelts. The reduction was most likely due to physical removal of the spores (detergent action) rather than killing them (sporicide action). Stockwashing may be best used in combination with other management measures (it is one step along a series of control measures that will incrementally reduce spore levels) to achieve good control of clostridia spores.



WHAT WE SAID WE'D DO... Implementation of a pan-industry effort to manage Johne's disease in New Zealand and continued development of Johne's Management Limited.

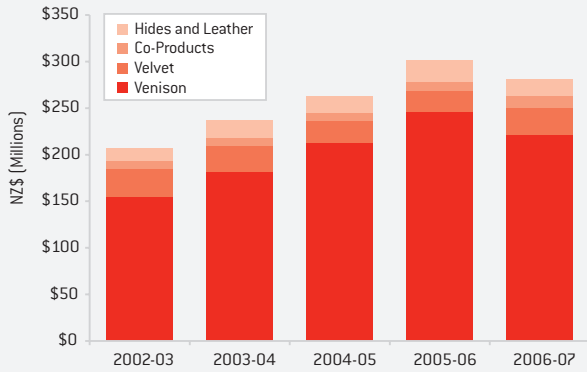
WHAT WE DID... Johne's Disease Research Consortium approved to receive funding from Foundation for Research Science & Technology and has a total spend of \$2.2 million per annum. DEER Research contribution of \$100k per annum.

WHAT WE SAID WE'D DO... DEER Select development and inclusion of velvet antler, and further development of maternal traits. Elk/Wapiti inclusion in DEER Select.

WHAT WE DID... Breeding values for Elk/Wapiti weight traits have been completed, and practical use and uptake has been offered to the elk/wapiti breeders for 2008. Velvet/hard antler traits are being developed following the January 2008 sale round.

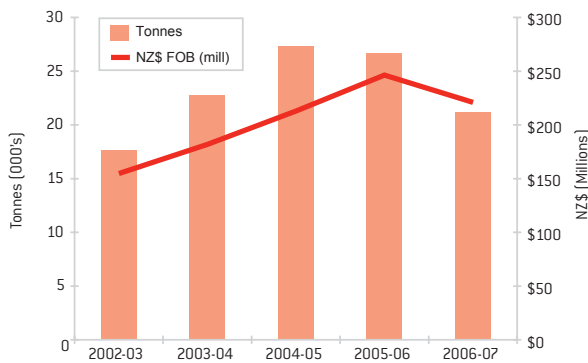
Industry Statistics

Total Export earnings



The New Zealand deer industry earned \$282 million from exports in 2006-07. The main contributor was venison, accounting for 79% of FOB returns, followed by velvet with 10%, and hides, leathers and co-products accounting for the remaining 11%. The total was down on 2005-06 as the volume of venison available for export decreased as New Zealand's production decreased by 17% year on year. DINZ estimates that less than 5% of venison production is consumed in New Zealand each year.

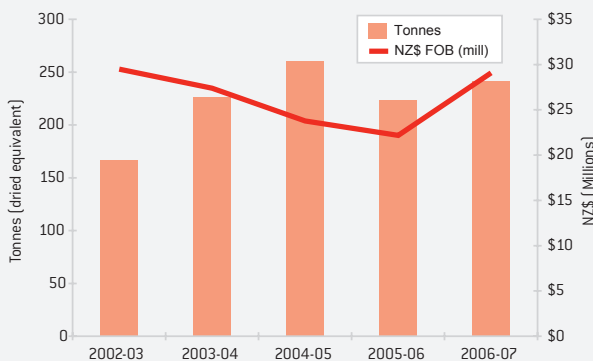
Venison Exports



The total volume of venison exports in the year ending September 2007 fell 21% in comparison to the year earlier, as New Zealand deer production began to fall from the previous years' record highs. With a reduced national herd, the number of deer available for slaughter was reduced, with some farmers beginning to retain hinds for rebuilding herds, and some stags for velvet production.

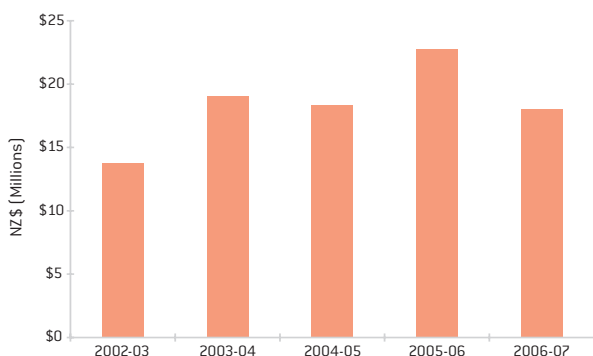
Total FOB returns fell 10% to \$221 million for the year ending September 2007. The average FOB venison price per tonne increased 13% over the year due to improved market prices and more chilled venison exports. Chilled exports earn a higher price than frozen exports, so a higher proportion of venison being exported in chilled form increases the overall returns for the New Zealand deer industry.

New Zealand Velvet Exports



In comparison to the previous year, the value of velvet exports increased by 31% to \$29 million dollars for the year ending September 2007. Despite the expectation that velvet volumes from New Zealand would decline during the 2006-07 period, export volumes increased by 8% to 241 tonnes (dried equivalent) in comparison to the previous year (223 tonnes). Prices to farmers and export prices continued to remain firm throughout the year with steady demand from all main markets.

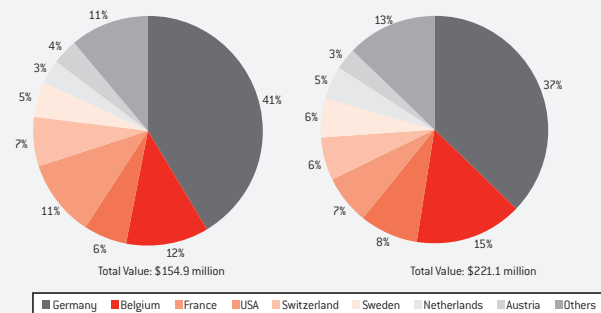
Hides and Leather Export Earnings



With reducing deer production, the quantity of deer skins available for processing and export fell. Consequently export revenues earned from hides and leather fell 21% to \$18 million dollars for the year ending September 2007. This was down 21% on the previous year when throughput was higher because of high deer production. However, prices received for skins and hides increased through the year as leathersgoods manufacturers responded to the decrease in supply.

Venison Markets 2002-03

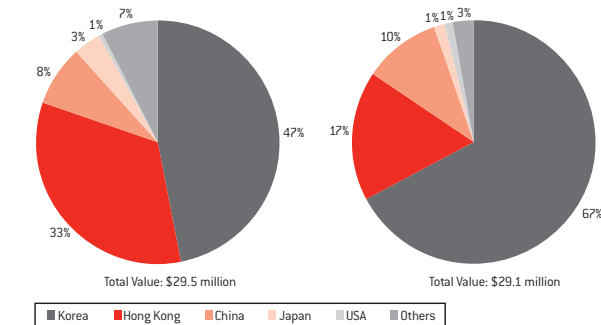
Venison Markets 2006-07



The USA and Switzerland are the only non-EU markets in New Zealand's top 8 by value. New Zealand's reliance on Germany has decreased since 2002-03 although New Zealand export statistics do not record the final country of consumption, and imports through countries such as Belgium and the Netherlands will be distributed throughout Europe. Volume-wise, exports to the USA stayed about level, but declined slightly as a proportion of total returns given the 42% increase in export receipts over the period.

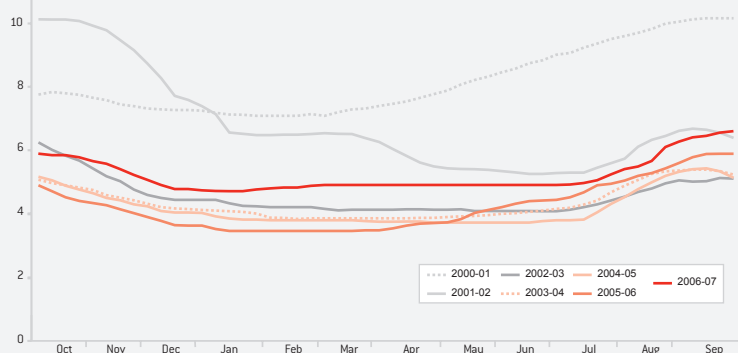
Velvet Markets 2002-03

Velvet Markets 2006-07



The Republic of Korea remains the industry's most dominant market, accounting for 67% of velvet exports. This is a 20% increase compared to 2002-03 and represents the growing number of frozen velvet shipments that are now exported directly to Korea. Deer Industry New Zealand estimates that 80% of New Zealand velvet is consumed in Korea.

Venison Schedule. 55-60 KG AP Stag. National Average Published Schedule



After 4 years of unsustainably low returns, the venison schedule began to creep back into higher territory for New Zealand deer farmers in the year ending September 2007. With improving market prices and increased sales of higher value items in chilled form, venison processing and marketing companies were able to pass market gains back to farmers.

The gains made by the venison industry saw the schedule reach \$6.60 by the end of the 2006-07 season, the highest level since 2001.

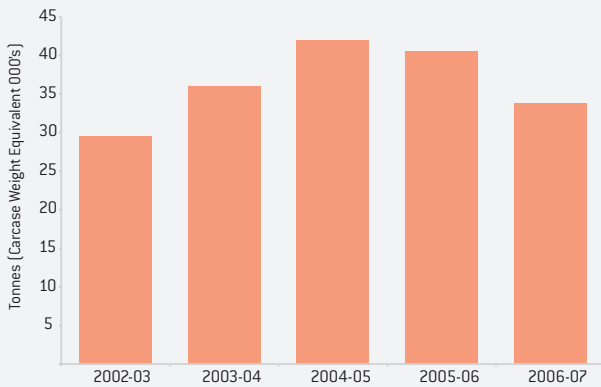
Average Weighted Velvet Pool Price 2000-01 — 2006-07



The average weighted pool price for velvet (across all grades) during the 2006-07 season was \$95/kg, an increase of 102% compared to the previous year and 20% above the 10 year average of \$79.

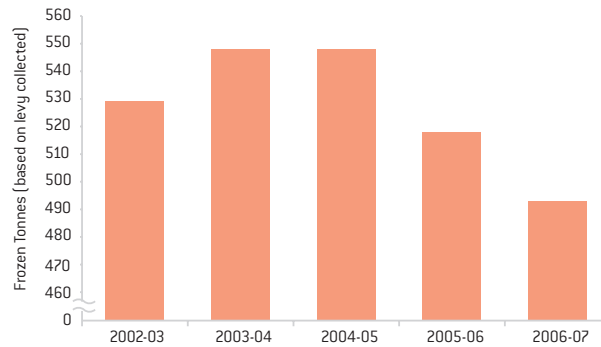
Industry Statistics

Venison Production



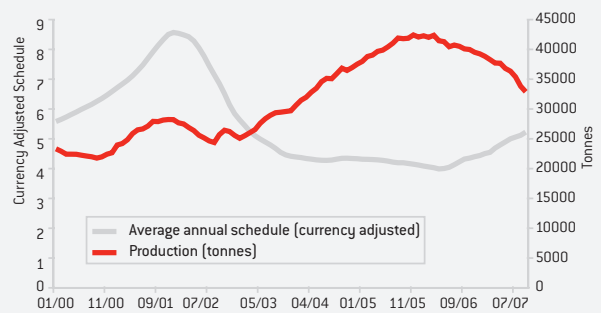
New Zealand venison production peaked at nearly 42,000 tonnes (carcase weight equivalent) in 2004-05. Since then, a combination of fewer deer on farms, and some measure of herd rebuilding, have contributed to the reduction in venison production. 2006-07 saw a 17% reduction on the previous year. Firstly, farmers who were going to exit the industry because of low returns had largely done so, leaving those who were more committed to the industry. Secondly, as prices improved, farmers had some incentive to stay with the industry, with some beginning to retain animals to increase herd size. Given the reduced number of hinds on farms, the industry's productive constraints will likely see production remain at lower levels for the next several years.

Velvet Production



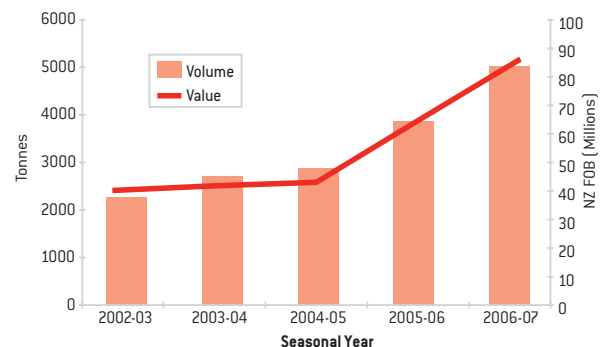
Velvet production decreased by 5% in 2006-07 in comparison to 2005-06. The decline was in line with expectation although not as significant as first forecast. The downward trend in production remains a direct result of uneconomic returns from velvet from previous seasons.

Volume and Value of New Zealand Venison 2000-07



The relationship between volume and price is clearly displayed in the accompanying graph. Apart from the exceptional circumstances of 2000-01, when farmgate prices and production rose, the influence of supply can clearly be seen on the schedule (with currency fluctuations taken into account). Production reached a peak in mid 2006, as the annual average schedule bottomed out. As production declined, prices also lifted.

Volume and Value of Chilled Venison Exports



The growth of chilled venison exports provides a higher return to the New Zealand venison industry. Exports have expanded as marketing companies have developed new products, increased sales through retail outlets, and educated customers on the techniques for maintaining chilled products for their optimum shelf-life.

Audit Report

Deloitte

TO THE READERS OF DEER INDUSTRY NEW ZEALAND AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

The Auditor-General is the auditor of Deer Industry New Zealand and Group. The Auditor-General has appointed me, Jacqueline Robertson, using the staff and resources of Deloitte, to carry out the audit of the financial statements of Deer Industry New Zealand and Group on his behalf, for the year ended 30 September 2007.

Unqualified Opinion

In our opinion:

- the financial statements of Deer Industry New Zealand and Group on pages 20 to 29:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - Deer Industry New Zealand and Group's financial position as at 30 September 2007; and
 - the results of their operations and cash flows for the year ended on that date.
- Based on our examination Deer Industry New Zealand kept proper accounting records.

The audit was completed on 22 November 2007, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to

obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of Deer Industry New Zealand and Group as at 30 September 2007. They must also give a true and fair view of the results of their operations and cash flows for the year ended on that date. The Board of Directors responsibilities arise from the Primary Products Marketing Act 1953.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and Section 12 of the Primary Products Marketing Act 1953.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit we have carried out assignments in the area of taxation advice, which is compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in Deer Industry New Zealand or any of its subsidiaries.



Jacqueline Robertson
DELOITTE
ON BEHALF OF THE AUDITOR-GENERAL
WELLINGTON, NEW ZEALAND

Financial Statements

Statement of Financial Performance for the year ended 30 September 2007

	Notes	Consolidated 2007 \$	Consolidated 2006 \$	Parent 2007 \$	Parent 2006 \$
INCOME					
Levy Income Venison	2	3,945,161	4,808,597	3,945,161	4,808,597
Levy Income Velvet		1,410,474	1,401,964	1,410,474	1,401,964
Interest Received	2	366,154	336,086	191,419	225,673
Foreign Currency Gain		-	63,874	-	63,874
Other Income		221,043	186,213	221,043	186,213
Animal Health Board Levy Received	3	1,603,065	2,801,197	1,603,065	2,801,197
Processor Voluntary Contribution for Johne's Management Ltd		208,753	-	-	-
TOTAL INCOME		7,754,650	9,597,931	7,371,162	9,487,518
EXPENDITURE					
OPERATING EXPENDITURE					
Audit Fees	4	30,640	25,470	22,940	22,270
Depreciation	6	36,802	41,963	35,130	41,963
Board and Directors' Fees and Expenses	9	234,687	228,108	209,187	214,369
Foreign Currency Loss		65,679	-	65,679	-
Insurance		105,569	182,294	105,569	182,294
Other Fees Paid to Auditors		32,563	24,942	35,763	28,142
Bad Debts		-	2,450	-	2,450
Other Operating Expenses		272,221	282,332	257,619	262,001
Premises Rental and Costs		72,472	68,439	72,472	68,439
Total Operating Expenditure		850,633	855,998	804,359	821,928
COMMUNICATIONS					
		277,557	322,122	277,557	322,122
QUALITY ASSURANCE					
		200,084	207,783	200,084	207,783
PRODUCER MANAGEMENT					
		275,440	284,187	275,440	284,187
VENISON PROMOTION					
Generic Promotion		1,168,231	1,262,459	1,168,231	1,262,459
Joint Promotion		752,232	845,775	752,232	845,775
Total Venison Promotion		1,920,463	2,108,234	1,920,463	2,108,234
VELVET					
Promotion		511,575	638,572	511,575	638,572
Velvet Removal		346,270	361,777	346,270	361,777
Total Velvet Expenditure		857,845	1,000,349	857,845	1,000,349
OTHER					
Animal Health Board Levy Paid	3	1,603,065	3,723,222	1,603,065	3,723,222
Grant To Cervena Trust Limited		-	-	21,397	30,760
Research Expenditure	12	1,060,270	1,009,516	1,138,785	1,467,952
Johne's Management Limited Operating Expenses		150,257	-	-	-
Total Other Expenditure		2,813,592	4,732,738	2,763,247	5,221,934
TOTAL EXPENDITURE		7,195,614	9,511,411	7,098,995	9,966,537
Net Surplus/(Deficit) Before Taxation		559,036	86,520	272,167	(479,019)
Taxation	5	473	-	-	-
Net Surplus/(Deficit) After Taxation		558,563	86,520	272,167	(479,019)
Surplus Attributable to:					
Deer Industry New Zealand Members		325,270	474,701	272,167	443,006
Game Industry Research Trust		193,509	533,844	-	-
Johne's Management Limited		39,784	-	-	-
Animal Health Board Levies		-	(922,025)	-	(922,025)
		558,563	86,520	272,167	(479,019)

The accompanying notes on pages 23 to 29 form part of these financial statements.

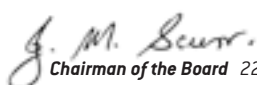
Statement of Movements in Accumulated Funds for the year ended 30 September 2007

	Notes	Consolidated 2007 \$	Consolidated 2006 \$	Parent 2007 \$	Parent 2006 \$
Opening Accumulated Funds		3,575,400	3,488,880	1,226,346	1,705,365
Net Group Surplus/(Deficit)		558,563	86,520	272,167	(479,019)
Total Recognised Gains and Losses		558,563	86,520	272,167	(479,019)
Closing Accumulated Funds		4,133,963	3,575,400	1,498,513	1,226,346
Closing Accumulated Funds relate to:					
Deer Industry New Zealand	10	2,107,880	1,742,826	1,498,513	1,226,346
Game Industry Research Trust	10	2,026,083	1,832,574	-	-
		4,133,963	3,575,400	1,498,513	1,226,346

Statement of Financial Position as at 30 September 2007

	Notes	Consolidated 2007 \$	Consolidated 2006 \$	Parent 2007 \$	Parent 2006 \$
Accumulated Funds	10	4,133,963	3,575,400	1,498,513	1,226,346
Represented By :					
Current Assets					
Short Term Bank Deposits		5,103,083	4,329,832	2,207,288	1,718,874
Trade Receivables		672,979	951,550	671,750	939,386
Accrued Interest		56,825	22,465	43,330	22,465
Prepayments		17,610	4,133	17,610	4,133
Intercompany Account Cervena Trust		5,781	5,781	-	-
Tax Refund Due		16,510	-	-	-
Intercompany Account VARNZ Ltd		12,212	5,131	-	-
Intercompany Account DEEResearch Ltd		2,244	21,596	928	-
Intercompany Account Cervena Company Limited		-	-	(100)	(100)
Intercompany Account Group Research Holdings Ltd		-	-	(100)	26,657
Total Current Assets		5,887,244	5,340,488	2,940,706	2,711,415
Less Current Liabilities					
Accounts Payable		697,812	1,262,530	382,029	813,309
Accruals		1,028,592	501,603	1,028,593	501,604
Employee Entitlements		66,816	59,723	66,816	59,723
Intercompany Account Group Research Holdings Ltd		-	-	(100)	0
Intercompany Account Research Trust		-	-	-	169,471
Intercompany Account DEEResearch Ltd		30	-	-	-
Total Current Liabilities		1,793,250	1,823,856	1,477,338	1,544,107
Non Current Assets					
Fixed Assets	6	39,938	58,738	34,845	58,738
Investment in Subsidiaries / Associates		30	30	300	300
Total Non Current Assets		39,968	58,768	35,145	59,038
Net Assets		4,133,962	3,575,400	1,498,513	1,226,346

The Financial Statements were authorised on behalf of the Board by:


Chairman of the Board 22 November 2007


Chairman of Audit Committee 22 November 2007

The accompanying notes on pages 23 to 29 form part of these financial statements.

Statement of Cashflows for the year ended 30 September 2007

	Consolidated 2007 \$	Consolidated 2006 \$	Parent 2007 \$	Parent 2006 \$
Cashflows from Operating Activities				
Cash was provided from:				
Venison, Velvet, Animal Health Board Levies & Johne's Management Contributions	7,435,087	9,055,888	7,435,088	9,055,888
Interest Received	342,729	328,900	170,554	205,895
Other Operating Income	221,043	186,213	221,043	186,213
	7,998,859	9,571,001	7,826,685	9,447,996
Cash was applied to :				
Payments to Suppliers and Employees	7,124,946	9,692,408	7,261,356	10,351,603
Taxation Paid	16,983	0	0	0
	7,141,929	9,692,408	7,261,356	10,351,603
Net Cashflows from Operating Activities	856,930	(121,407)	565,329	(903,607)
Cashflows from Investing Activities				
Cash was applied to :				
Purchase of Fixed Assets	18,003	13,433	11,237	13,433
Net Cashflows from Investing Activities	(18,003)	(13,433)	(11,237)	(13,433)
Net Increase/(Decrease) in Cash Held	838,927	(134,840)	554,092	(917,040)
Opening Cash Balance	4,329,832	4,400,798	1,718,874	2,572,040
Effect of exchange rate change on foreign currency balances	(65,679)	63,874	(65,679)	63,874
Closing Cash Balance	5,103,080	4,329,832	2,207,287	1,718,874
Reconciliation of Net Surplus/(Deficit) After Tax With Operating Activities				
Reported Surplus/(Deficit)	558,563	86,520	272,167	(479,019)
Add:				
Non Cash Items				
Depreciation	36,802	41,963	35,130	41,963
Foreign Currency Loss/(Gain)	65,679	(63,874)	65,679	(63,874)
	102,481	(21,911)	100,809	(21,911)
Movement in working capital				
Accounts Receivable	244,208	17,162	246,770	24,350
Prepayments	(13,477)	(4,133)	(13,477)	(4,133)
Tax Refund Due	(16,510)	-	-	-
Accounts Payable	(564,718)	580,482	(449,279)	345,424
Accruals	534,082	(421,780)	534,082	(421,779)
Subsidiary and Associates Receivables / Payables	12,301	(357,747)	(125,743)	(360,856)
Game Industry Research Trust	-	-	-	14,317
	195,886	(186,016)	192,353	(402,677)
Net Cashflows from Operating Activities	856,930	(121,407)	565,329	(903,607)

The accompanying notes on pages 23 to 29 form part of these financial statements.

Notes

to and forming part of the
Financial Statements for the year
ended 30 September 2007

Deer Industry New Zealand is a marketing authority established under the Primary Products Marketing Act 1953 and the Deer Industry New Zealand Regulations 2004. It is the same body as the Game Industry Board, established under the Game Industry Board Regulations 1985.

Deer Industry New Zealand is charged with promoting and assisting the development of the deer industry in New Zealand.

1. STATEMENT OF ACCOUNTING POLICIES

(a) General Accounting Policies

The general accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by Deer Industry New Zealand. Reliance is placed on the fact that Deer Industry New Zealand is a going concern.

(b) Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of profit and the financial position have been applied:

Basis of Consolidation

The consolidated financial statements include Deer Industry New Zealand and its subsidiaries, using the purchase method. All significant inter-company transactions are eliminated on consolidation. Investments in subsidiaries made by the parent are stated in its financial statements at cost.

The following entities have been consolidated for the period ended 30 September 2007. All subsidiaries have a 30 September balance date.

- **Game Industry Research Trust**
This is a trust established to provide research funding for selected industry good projects aimed at benefiting the New Zealand deer industry.
- **The Cervena Company Limited**
A wholly owned subsidiary which has not operated for the year ended 30 September 2007.
- **Group Research Holdings Limited**
A wholly owned subsidiary which is responsible for research activities of Deer Industry New Zealand.
- **Cervena Trust Limited**
Cervena Trust Limited is the corporate trustee of the Cervena Trust. Deer Industry New Zealand owns 25 percent of the share capital of Cervena Trust Limited and the remaining 75 percent is held in a fiduciary capacity by the directors on behalf of Deer Industry New Zealand. In these circumstances, while not operationally part of the Deer Industry New Zealand Group, power and benefit elements are present and therefore the financial statements of the Cervena Trust Limited are required to be consolidated with those of Deer Industry New Zealand under FRS 36.
- **Johne's Management Limited (JML)**
JML a wholly owned subsidiary (through Group Research Holdings Limited) was established on 23 November 2006 to gather epidemiology information on Johne's disease, and provide information to farmers so that they may manage the disease. JML is funded entirely from voluntary contributions collected by DINZ. DINZ passes the funds through to JML which applies them towards the cost of undertaking the project and on any associated administration costs incurred in carrying out the project

The following entities have not been consolidated for the period ended 30 September 2007:

- **Cervena Trust**
The purpose of the Cervena Trust is to develop and promote the Cervena appellation. It does this by licensing the appellation through Cervena Trust Limited to sub-licensees. The Trust has not been consolidated as Deer Industry New Zealand does not have an ownership interest in the Trust. In addition, the beneficiaries of the Trust are not the same group as the stakeholders in Deer Industry New Zealand, but are a subset of that group.

The following companies are associated entities of Deer Industry New Zealand:

- **Velvet Antler Research New Zealand Limited (VARNZ)**
VARNZ is a joint venture company between the New Zealand Deer Industry (through Group Research Holdings Limited) and AgResearch Limited, which undertakes research into velvet antler. Payments by the Group to VARNZ are accounted for as research or administration expenditure. VARNZ Limited has a 30 September balance date.
- **DEEResearch Limited**
DEEResearch Limited is a joint venture company, whose shareholders are AgResearch Limited (50%), Group Research Holdings Limited (25%) and the New Zealand Deer Farmers' Association (25%). The objectives of the company are to research non-velvet related deer products. Payments by the Group to DEEResearch Limited are accounted for as research or administration expenditure.
DEEResearch Limited has a 30 June balance date.

Notes

The equity provisions of FRS 38 have not been applied in respect of the above associated entities as its application would not result in any material differences.

Fixed Assets

Deer Industry New Zealand has three classes of fixed assets: Furniture & Fittings, Computer Equipment and Office Equipment. Fixed assets are stated at cost less accumulated depreciation.

Depreciation

Depreciation is recognised in the Statement of Financial Performance on a straight line basis, at rates calculated to allocate the assets' cost over their estimated useful lives. Major depreciation periods are: Furniture & Fittings: 5-10 Years; Office Equipment: 5 Years; Computer Equipment: 3 Years.

GST

These financial statements are prepared on a GST exclusive basis. GST payable at year end is included in Accounts Payable.

Income Tax

The income tax expense charged against the surplus for the year is the estimated liability in respect of that surplus and is calculated after an allowance for permanent differences. The liability method of accounting for deferred taxation is applied on a comprehensive basis.

Future tax benefits attributable to tax losses or timing differences are only recognised when there is virtual certainty of realisation.

Foreign Currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Foreign exchange gains or losses have been accounted for in the statement of financial performance. At balance date, bank accounts holding foreign currency are converted to New Zealand dollars using the closing rate.

Financial Instruments

Deer Industry New Zealand is party to financial instruments as part of its everyday operations. These include instruments such as bank balances, investments, accounts receivable, trade creditors and forward rate agreements for foreign currency.

Revenues and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance. All financial instruments except foreign currency contracts are recognised in the Statement of Financial Position.

Changes in Accounting Policies

There have been no changes in accounting policies.

All policies have been applied on a basis consistent with those used in previous years.

2. INCOME

Income comprises venison and velvet levies received from members in the ordinary course of business. Income from voluntary contribution from venison processors is on an accrual basis.

Interest income is accounted for on an accrual basis.

3. ANIMAL HEALTH BOARD LEVY

Deer Industry New Zealand collects the Animal Health Board ('AHB') levy at a rate set annually from 1 October, and makes minimum monthly payments based on the annual contribution agreed with the AHB. During the 2006 financial year Deer Industry New Zealand executed a Deed of Amendment and Restatement with the Animal Health Board requiring all excess of AHB levy funds over the monthly minimum payment collected by Deer Industry New Zealand to be remitted to the Animal Health Board.

These funds are managed by the Animal Health Board and accounted for Deer Industry New Zealand. Where these levies are surplus to the annual requirement of the Animal Health Board's deer programmes, the funds are carried forward and interest is accrued at commercial rates for the benefit of Deer Industry New Zealand members. The Animal Health Board levy is reviewed annually by Deer Industry New Zealand. As at 30 June 2007 the Animal Health Board reported levies held on behalf of the deer industry is \$2.2million (2006 \$1.8million).

4. AUDIT FEES

Audit fees paid by Deer Industry New Zealand include the cost of the audit of other Group entities:

	2007	2006
Audit of Deer Industry New Zealand:	\$22,940	\$22,270
Audit of other Group entities:	\$7,700	\$3,200
	\$30,640	\$25,470

5. TAXATION

	Consolidated 2007 \$	Consolidated 2006 \$	Parent 2007 \$	Parent 2006 \$
Net Surplus/(Deficit)/ Before Tax	559,036	86,520	1285,697	(479,019)
Permanent Differences	(190,006)	(533,844)	3,503	2,242
	369,030	(447,324)	289,200	(476,777)
Tax @ 33%	121,780	147,617	95,436	157,336
Deferred Tax Asset not Previously Recognised	(121,307)	(147,617)	(95,436)	(157,336)
Income Tax Charge as per Statement of Financial Performance	473	-	-	-

Imputation Credits	Consolidated 2007 \$	Consolidated 2006 \$	Parent 2007 \$	Parent 2006 \$
Opening Balance	1,145,099	1,145,097	500,749	500,749
Resident Withholding				
Tax Paid	-	2	-	-
Closing Balance	1,145,099	1,145,099	500,749	500,749

Deer Industry New Zealand, Cervena Company Limited, Cervena Trust Limited and Group Research Holdings Limited are all taxable entities. The Game Industry Research Trust is tax exempt.

The Group has income tax losses of \$88,131 (2006: \$346,769) available to be carried forward to be offset against taxable income in future periods. The availability of these losses is subject to the requirements of income tax legislation being met.

The deferred tax benefit in respect of the losses has not been recognised.

6. FIXED ASSETS

PARENT

	Cost \$	Accumulated Depreciation \$	NBV 2007 \$	NBV 2006 \$	Depreciation 2007 \$	Depreciation 2006 \$
Furniture & Fittings	71,688	56,508	15,180	26,931	12,050	12,363
Computer Equipment & Software	147,126	128,470	18,656	31,018	22,469	28,796
Office Equipment	7,843	6,834	1,009	790	611	804
	226,656	191,811	34,845	58,738	35,130	41,963

CONSOLIDATED

	Cost \$	Accumulated Depreciation \$	NBV 2007 \$	NBV 2006 \$	Depreciation 2007 \$	Depreciation 2006 \$
Furniture & Fittings	71,688	56,508	15,180	26,931	12,050	12,363
Computer Equipment & Software	153,891	130,142	23,749	31,018	24,141	28,796
Office Equipment	7,843	6,834	1,009	790	611	804
	233,421	193,483	39,938	58,738	36,802	41,963

Notes

7. SEGMENTAL REPORTING

Deer Industry New Zealand and its controlled entities operate solely in one industry segment, being the deer industry.

The Group entities conduct work in New Zealand and a number of overseas countries in the fulfilment of their purpose - assisting the orderly development of the deer industry and promoting products derived from deer.

8. FINANCIAL INSTRUMENTS

Nature and Extent

The Group enters into forward exchange agreements from time to time to hedge against currency movements.

Fair Value

The carrying values of all balance sheet financial assets and liabilities are considered to be equivalent to their fair market values.

Credit Risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of short-term bank deposits and accounts receivable.

The Group deposits its cash with trading banks. The credit risk with respect to accounts receivable is limited due to the number of debtors.

Interest Rate and Currency Risk

While the majority of the Group's activities are carried out in New Zealand, of the total expenditures incurred by the Group approximately 14% were denominated in foreign currency.

At balance date, foreign currency deposits totalled \$57,195 (2006: \$53,322). The notional or principal contract amounts of foreign exchange instruments at balance date for the parent and group were for forward exchange contracts of nil (2006: \$812,132). The unrealised gain on these contracts at balance date is \$0 (2006: \$12,996). All deposits held by the Group are short term in nature. The Group receives interest at current market rates.

9. BOARD AND DIRECTORS' FEES AND RELATED EXPENSES

These expenses cover amounts paid to Board Members and Directors in the form of honoraria, attendance fees for board meetings and other special meetings that may arise from time to time. It also covers the cost of travel for Board Members and Directors incurred in fulfilling their respective roles.

There were no changes made to fees and honoraria for Deer Industry New Zealand Board Members this year. The Chairman receives \$35,000, the Deputy Chairman receives \$22,500 and Board Members \$17,500. The Board comprises eight members.

The 2007 year total for Deer Industry New Zealand is \$209,187 (2006: \$214,369). This comprises \$162,500 in Board fees (2006: \$162,500), and \$46,687 in travel and accommodation expenses (2006: \$51,869).

The following change in Board composition has taken place this year:

- Mr Jeff Pearse resigned from the Board on 30 June 2007 and was replaced on 1 July 2007 by Mr Keith Neylon.

Cervena Company Limited

There were no director fees or travel expenses paid.

Cervena Trust Limited

Directors' fees totalled \$12,000 for both financial years. Trustees Mr David Wright, Mr James Guild and Mr John Upton received fees of \$4,000 each in the current financial year. Travel expenses were \$0 (2006: \$1,739).

Johne's Management Limited

Directors' fees were paid to Mr GW Neilson \$10,000, Chairman, Mr EA Brook \$1,250, Mr ID Stewart \$1,250 and Mr IS Hercus \$1,000.

10. ACCUMULATED FUNDS

The accumulated funds of the Group are \$4,133,963 (2006: \$3,575,400), of which \$2,026,083 (2006: \$1,832,574) is held by the Game Industry Research Trust. The funds held by the Trust are dedicated for the undertaking of industry good research, the benefits of which will accrue to the deer industry.

Deer Industry New Zealand

	2007	2006
	\$	\$
Opening Balance	1,226,346	1,705,365
Surplus attributable to Deer Industry New Zealand (deficit)	272,167	(479,019)
Closing Balance	1,498,513	1,226,346

Game Industry Research Trust

	2007	2006
	\$	\$
Opening Balance	1,832,574	1,298,730
Surplus attributable to Game Industry Research Trust	193,509	533,844
Closing Balance	2,026,083	1,832,574

Animal Health Board Reserve

	2007	2006
	\$	\$
Opening Balance	-	922,025
Net Levies AHB Levies Received/(Payments)	-	(922,025)
Closing Balance	-	-

11. EMPLOYEE REMUNERATION

Set out below are the numbers of employees of Deer Industry New Zealand and its subsidiaries who received remuneration and other benefits of \$100,000 or more during the year, in their capacity as employees.

Remuneration Range	Number of Employees
\$100,000 - \$109,999	2
\$200,000 - \$219,999	1

Related Parties

All transactions between entities within the Group were conducted on an arm's length basis.

During the year Deer Industry New Zealand provided research administration grants to associated entities: Velvet Antler Research New Zealand Limited 2007: \$56,652 (2006:-\$14,159) and DEEResearch Limited 2007: \$13,443 (2006:-\$4,090). The credits in the 2006 financial year arose from the reversal of accruals where project milestones were not achieved. This funding is provided via Group Research Holdings Limited.

The Game Industry Research Trust now provides the research funding to VARNZ of \$304,655 (2006: \$381,398) and DEEResearch Limited of \$580,359 (2006: \$560,166).

Deer Industry New Zealand provided a research grant to the Game Industry Research Trust of \$950,000 (2006: \$1,400,000).

An operational grant of \$21,397 (2006: \$30,760) was provided from Deer Industry New Zealand to Cervena Trust Limited.

Payments are made to fund joint promotional activities to venison processing companies who have directors, officers or shareholders who are also board members of Deer Industry New Zealand.

As part of the annual budget setting process, the Board is responsible for allocating the total pool of funds to be spent on joint promotion, which is then subject to industry consultation. This pool is allocated to venison processing companies based on a formal allocation policy administered by Deer Industry New Zealand management. As such, the Deer Industry New Zealand board has no influence on the allocation of these funds to venison companies.

S Nattrass received \$2,500 in fees via his company Cambiste Limited in relation to work for Velconz.

Notes

13. COMMITMENTS

Commitments in respect of non-cancellable operating leases for rental of office premises are as follows:

	Parent & Consolidated 2007	Parent & Consolidated 2006
	\$	\$
Not later than 1 year	69,500	63,230
Later than 1 year and not later than 2 years	82,200	63,230
Later than 2 years	82,200	110,651

Deer Industry New Zealand group provides funding for approved research contracts entered into by DEEResearch Limited subject to milestones being achieved. These commitments are as follows:

	2007 \$	2006 \$
Not later than 1 year	647,500	567,000
Later than 1 year and not later than 2 years	69,000	55,000
Later than 2 years	70,000	25,000

Commitments in respect of research contracts entered into by Velvet Antler Research New Zealand Limited subject to the completion of milestones are as follows:

	2007 \$	2006 \$
Not later than 1 year	554,000	503,000

Commitments in respect of funding of deer sector indivisible costs entered into by Deer Industry New Zealand for the National Bovine Tuberculosis Pest Management Strategy with the Animal Health Board are as follows:

	2007 \$	2006 \$
Not later than 1 year	1,200,000	1,200,000
Later than 1 year and not later than 2 years	1,200,000	900,000
Later than 2 years	-	-

The funding agreement between Deer Industry New Zealand and the Animal Health Board requires funding from Deer Industry New Zealand subsequent to the Animal Health Board June 2008 financial year at no less than 2008 funding levels of \$1.2 million per annum until a new agreement is signed.

14. CONTINGENCIES

Deer Industry New Zealand's associated entity DEEResearch Limited has two wholly-owned subsidiary entities which have been established to hold DEEResearch Limited's interest in two unincorporated joint ventures; Pastoral Greenhouse Gas Research Consortium (2.34% holding) and Pastoral Genomics Consortium (1.0% holding). DEEResearch Limited has unconditional guarantees to the other partners in the unincorporated joint ventures which:

- a. guarantee the due performance and observance of the guaranteed obligations by its subsidiary companies; and
- b. indemnify against any loss or damage due to any breach of the unincorporated joint venture agreements by its subsidiary companies.

15. ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that the New Zealand equivalents to International Financial Reporting Standards ("NZIFRS") will apply to all New Zealand entities for the periods commencing on or after 1 January 2007.

Deer Industry New Zealand will adopt NZIFRS for the year ending 30 September 2008.

After a review of the potential adjustments required in the financial statements in the transition from New Zealand generally accepted accounting practice to NZIFRS, the following material area has initially been identified.

Financial Derivatives

Deer Industry New Zealand uses forward exchange contracts to manage its exposure to movements in foreign exchange rates. Currently these gains are recognised as a component of the transaction in the period in which the transaction is completed.

Under IFRS all derivative financial instruments will be recognised at fair value in the statement of financial position. Any changes to fair value of derivatives will be reflected in the statement of financial performance.

16. SUBSEQUENT EVENTS

On 1 October 2007 a dividend of \$550,162, with imputation credits attached of \$270,975 was paid to Deer Industry New Zealand Ltd by Cervena Company Limited. Following this dividend a resolution was passed to commence the dissolution of The Cervena Company Limited.

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Tony Pearse	Producer Manager	04 471 6118	021 719 038	tony.pearse@deernz.org
John Tacon	Quality Manager	04 471 6117	021 242 2873	john.tacon@deernz.org

Contracted Specialists

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Websites

Corporate	www.deernz.org
Non – velvet Research	www.deerresearch.co.nz
Venison	www.nzvenison.com
German Venison	www.neuseelandhirsch.de
Cervena	www.cervena.com
Velvet	www.velvet.org.nz
Korean Velvet	www.dinz.co.kr

