

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of Deer Industry New Zealand for the year ended 30 September 2004 included on Deer Industry New Zealand's website. Deer Industry New Zealand is responsible for the maintenance and integrity of the website. We have not been engaged to report on the integrity of the website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 20 December 2004 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ANNUAL REPORT

DEER INDUSTRY NEW ZEALAND ANNUAL REPORT 2003-2004

INSIDE



**INVESTMENT IN
VENISON**

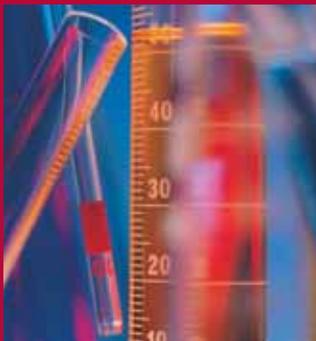


**ACCESS TO MORE
MARKETS**



**RESEARCH: PROTECTING
& ENHANCING VALUE**

CONTENTS



1 CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

An intense year of extraordinary activity

3 BOARD OF DIRECTORS

Board reduced to eight and includes two new members

5 RESEARCH

Wound healing potential of velvet a highlight of the industry's \$1.3 million research and development spend

6 VENISON

Investment in venison promotion, also leveraging industry spend, creating demand and repositioning venison in the retail sector

8 VELVET

Another tough year in 2003/2004 and the push is on to open access to new and emerging markets

10 STATISTICS

An industry snapshot

12 REPORT OF THE AUDIT OFFICE

13 FINANCIAL STATEMENTS

Of the \$5.9 million received in levies and other income, 78% was spent on venison and velvet promotion and research and development

16 NOTES TO FINANCIAL STATEMENTS

22 DEER INDUSTRY NEW ZEALAND EXECUTIVE

Your team of eight executive staff working for industry-good

Intense Year Of Activity



MJ Loza, CEO (left) and Clive Jermy, Chairman.

NEW DEMAND CREATION PROGRAMMES AND SIGNIFICANTLY ACCELERATED ACTIVITY IN THE MARKETS ARE OUR PATHWAY FOR A MORE SUSTAINABLE INDUSTRY.

However, they are medium to long-term investments for the future. The fastest way to achieve a recovery is to reduce venison and velvet supply to levels more manageable by the market.

The past year has been extremely difficult in terms of farm-gate returns and market conditions. However, we believe it has been an important and encouraging year in developing markets to support a profitable and sustainable future.

The development of five-year strategies with measurable targets for venison and velvet has been an important achievement. Our collective approach, with all sectors working in partnership is the best way to face current challenges. Not only are our direction and targets clear, but our level of activity has never

been higher, supporting the commitment of our exporters and their market partners.

REPOSITIONING VENISON AT RETAIL

For some time, the industry has known it has grown past the point where we can rely on the traditional game season. The industry's clear focus is on building new year-round demand, especially through retail channels and providing healthy and convenient diversified products for the modern consumer.

To achieve profitable growth requires a larger consumer base and changing a culture and attitude as to how and when venison is eaten. It means promoting New Zealand country-of-origin and venison's nutritional profile to position venison as a modern, healthy food.

Retail is the primary medium available to the industry to achieve profitable growth. Retailers will promote the New Zealand origin of our products, and they will allow us to promote venison's healthy nutritional qualities. Where chefs like their menus to reflect seasonality, with venison a strictly game season item, retailers are more open to stocking venison year-round and reach a much larger market.

So, this past year has seen the Supermarket Tasting Tour and the much larger and more sophisticated *Sommerkampagne* in Germany.

The success of these programmes comes not just from immediate sales and long-term positioning of venison, but also in building credibility with retailers.

Encouraged by New Zealand's commitment to promote venison, retailers are stocking venison outside the game season and support a repeat of these programmes in 2005 (see 'What to Look For In 2004/05').

While schedule returns remain at unsustainably low levels, similar to last year, it is important to consider this in context:

- Despite high production levels, product has been moving through to consumption (assisted by current prices) and there are no reports of stocks.
- The weak Euro and US dollar compared with the New Zealand dollar has wiped \$17 million off deer industry returns this year – 33c per kg from venison and \$9.20 per kg from velvet.
- Until the industry repositions venison and develops year-round retail markets we remain reliant on the foodservice sector in the game season. Foodservice channels (restaurants) have been exceptionally hard hit by the German economic recession and, at current volumes, we have clearly outgrown the game sector.
- The value of the industry's agreed strategy and demand creation programmes will be seen in the

longer term. Success will be underpinned by the strong support received from exporters and their market partners.

The major factor impacting today's venison returns is today's level of production compared with current demand. Excellent work is underway to build new demand at retail and in markets outside Germany, but this will not address the short-term situation, which is dominated by the level of supply. Pulling back supply in line with demand is the fastest way to assist a recovery for venison – we cannot expect demand creation to do it faster.

RELIANCE ON KOREA EXPOSES VELVET

Our reliance on Korea has been exposed with the weak Korean economy compounded by the weak Korean won and oversupply of velvet.

For the longer-term, key projects aim to reduce this reliance and level the playing field in Korea: opening access into China; improved access into Taiwan; reducing border charges and opening access in Korea for new velvet products (sliced velvet was just the start); and in new channels. Accelerating the progress of our wound healing science programme is also being investigated.

In the short-term however, we need to bring velvet supply into line with demand, which at present remains very soft. But, we must be careful not to overshoot this correction. Too large a cull of velveting stags would impact the venison market as well as potentially creating a vacuum in velvet supply which competing suppliers would rush to fill, displacing New Zealand velvet in the market.

While velvet markets have been and remain a real concern, history has shown that Korea can respond quickly when overproduction is corrected. We believe there remains enormous potential for velvet in Korea and in new markets.

ACTION FOR INDUSTRY-GOOD

We have been very active representing deer industry interests on a wide range of issues (see separate box page 4). This work is critical, especially as the demands upon agriculture from local and central government, overseas markets and regulators increase. We are working closely with aligned industries and organisations to reduce duplication and to add strength to our individual positions by developing a unified and co-ordinated voice.

We are especially pleased to have seen the French market open for year-round venison sales and the industry's commitment to grow this market, with a significant promotional programme planned there in 2005. Improving access remains a core part of our industry-good work.

BOARD CHANGES

After five years, the last of our 1999 reforms finally have been put in place. The now eight member Board has moved to 50:50 representation between producers and processor/exporters and a 50:50 venison levy. These changes are embodied in the new Deer Industry New Zealand Regulations 2004 which came into effect a few weeks after year-end, on 21 October 2004.

As a result of the restructuring, Andy Thomson and Mike Pattison left the Board. Chris Newton also left and was replaced by Stuart Natrass, who

WHAT TO LOOK FOR IN 2004/05

- Venison and Velvet Strategies: progress reported against measurable goals.
- Continuing focus of summer venison promotion at German retail.
- New venison promotional campaigns in France and the UK.
- US venison market development strategy confirmed.
- Penultimate year of wound-healing research completed – on target to have a commercially viable package to discuss with commercialisation partners in 2006.
- Political and media campaign lobbying for improved velvet access in Taiwan.
- Start of work on Code of Welfare for Velvet Removal.
- Outcomes of initial supply management meeting reported to industry and options identified and well advanced.
- Consultation on working group's draft Productivity Strategy and presentation of Strategy at Conference. Implementation of strategy planned.
- Industry consultation regarding collective funding of some Tb testing.
- Key industry-good activity regarding Market Access (China Free Trade Agreement, World Trade Organisation) and Animal Identification.
- Launch of new, stronger Primary Industry Council.

we welcome to the Board along with Andrew Duncan. He replaced Michael Rice who retired after 17 years' service as a Board Member.

PEOPLE

Industry pioneer, Sir Peter Elworthy passed away suddenly this year – a great loss to deer farming.

Shortly after year-end, after 10 years of service, MJ Loza announced his resignation as CEO. MJ has been a truly outstanding asset for the industry and Deer Industry New Zealand. We all appreciate his enormous capacity for work, his high levels of skills, dedication and commitment to the industry. Mark O'Connor's appointment as Chief Executive Officer was announced, replacing MJ effective 1 January 2005. The industry welcomes Mark in this new position and looks forward to working with him.

SUMMARY

An intense year of extraordinary activity, 2003-2004 saw significant new venison market development programmes, venison and velvet strategies, wins on access in France and Korea and, possibly most importantly, resolving food safety and drug-access issues relating to velvet removal. The entire Executive team deserves real credit for an outstanding effort.

We are greatly encouraged by our exporters' professional application to market development and repositioning of venison in the market and by the support received from in-market partners as to the future direction for venison to grow profitably. This will yield long-term gains but, in the short-term, a sustainable and real improvement in returns requires supply coming back to levels more manageable by the market. In many respects, the speed of the recovery is in our hands collectively, but it is there for us.

2005 will be another year of considerable activity in the markets, increasing the momentum and gains of 2004. Deer Industry New Zealand looks forward to continuing the development of a solid foundation for a sustainable future.

— **CLIVE JERMY, CHAIRMAN**
MJ LOZA, CEO

NOMINATED BY THE NEW ZEALAND DEER FARMERS' ASSOCIATION:



CLIVE JERMY
(Chairman)
Palmerston, Otago

Managing Director and Chair of Stanfield's Bushey Park Ltd; CIC Head of Delegation for New Zealand; shareholder of Alliance Group Ltd; farms near Palmerston.



JOHN SCURR
(Deputy Chairman)
Wanaka, Otago

Shareholder of Veleco Ltd and PPCS Ltd; farms at Wanaka.



WARREN MOYES
Whangarei, Northland

Chair of New Zealand Electricity Networks Association, Northpower Ltd; Metropower Ltd; shareholder of Deer Products International; farms near Whangarei.



JEFFREY PEARSE
Waitohi, South Canterbury

Chair of the Game Industry Research Trust; shareholder of Veleco Ltd and Alliance Group Ltd; farms near Temuka.

NOMINATED BY THE NEW ZEALAND DEER INDUSTRY ASSOCIATION:



STEWART BARNETT
Dunedin, Otago

CEO PPCS Ltd; Director of the following companies - Air Foods NZ Ltd, Kiwi Fern Ltd, CFM Management Ltd, Slink Skins Canterbury Ltd, Supergrass Ltd, Broadoak Ltd; Global Technologies (NZ) Ltd, New Zealand Lamb Co Ltd, PPCS USA Inc, PPCS (UK) Ltd, B Brooks (Norwich) Ltd, Robotics Technologies Ltd, PPCS Superannuation Ltd, PPCS Investments Ltd, Hawkes Bay Meat Holdings Ltd, Waitotara Meat Company Ltd; Waitotara Meat Marketing Ltd, Richmond Group Holdings Ltd, Richmond Enterprises (1996) Ltd, Gourmet Direct Ltd, New Zealand Lamb Company (North America Ltd); Meat Industry Association.



ANDREW DUNCAN
Auckland

Director of Duncan and Company Ltd, Duncan Processors Ltd, HDF Holdings Ltd; Matawai Deer Ltd and Velvet Developers Ltd.



JOHN MACDONALD
Christchurch, Canterbury

Owner/operator of Canterbury Antler Ltd; Director of Cinema 3 Ltd and Bellbrook Investments Ltd.



STUART NATRASS
Geraldine, South Canterbury.

Business consultant. Farms sheep, beef and deer; Chairman of Specialised Sales and Marketing; Director of Cropmark Seeds Ltd, Wool Services International; South Canterbury Finance and Fonterra Co-operative Group; shareholder and Director of Estar Online Ltd; shareholder of PPCS.

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 indemnity insurance.

WHAT WE SAID AND WHAT WE DID

WHAT WE SAID WE'D DO IN 2003/04 <small>(FROM ANNUAL REPORT 2002/03)</small>	WHAT WE DID
<p>Cervena Review and the Deer Quality Assurance (DeerQA) programmes completed and reported.</p>	<ul style="list-style-type: none"> • Cervena Review completed and reported by Cervena Trust. Companies have renewed their licenses for a further year and are working on a co-operative strategy with the Trust. • QA review undertaken. Full spectrum of views expressed without a clear way forward. Support for maintaining current QA activities tested in the industry poll in November.
<p>Development of updated vision including objectives and strategy for the venison industry.</p>	<ul style="list-style-type: none"> • Venison and Velvet Strategies 2005-2010 developed after wide industry consultation – including measurable goals for the first time.
<p>Even bigger and stronger promotional programme for venison in Europe, including a targeted generic programme aimed to generate consumer 'pull-through' to incentivise and support retailers stocking New Zealand venison.</p>	<ul style="list-style-type: none"> • Venison promotion accounted for 57% of venison levy. • Levies spent on joint promotional programmes leveraged almost \$1.50 for every \$1 of levies– in addition to companies' own promotional activities. This reduction in joint promotion leverage (from as high as \$3 previously) results from the agreed allocation of significant budget towards generic programmes including <i>Sommerkampagne</i> and the Supermarket Tasting Tour this year.
<p>Levy re-mandating process to determine whether the industry still requires the industry-good services of Deer Industry New Zealand and, if so, in what areas and to what extent.</p>	<ul style="list-style-type: none"> • Consultation process concluded after year end. Low voter turnout in poll, but strong support from those participating for Deer Industry New Zealand, its partnership approach and current activities.
<p>Move to new premises to take advantage of the opportunity to work more closely with other agricultural organisations. This will see cost savings, a range of efficiencies and a stronger voice for the deer industry.</p>	<ul style="list-style-type: none"> • Moved to shared offices with MIA and Meat and Wool New Zealand. • Shared reception, accounting, IT and legal services and shared use of facilities.
<p>Commercialisation of patented velvet intellectual property regarding wound-healing applications.</p>	<ul style="list-style-type: none"> • New VARNZ Board established with specialist science-commercialisation expertise. • Business plan and path towards commercialisation developed. • Initial market contacts with pharmaceutical industry positive.
<p>Code of Welfare for Deer Farming.</p>	<ul style="list-style-type: none"> • Industry consultation completed. Draft Code of Welfare finalised and presented to National Animal Welfare Advisory Committee. Public consultation is now NAWAC's responsibility.
<p>Work commencing, including industry consultation, on a Code of Welfare for Velvet Removal.</p>	<ul style="list-style-type: none"> • Not progressed to date. Focus has been on resolving velvet removal issues relating to food safety regulations.
<p>OTHER ACHIEVEMENTS</p>	<ul style="list-style-type: none"> • Year-round access for venison into France. • 30% reduction in Special Excise Tax for velvet into Korea for 2004. • Continued access to lignocaine and xylazine for velvet removal through research and regulatory programmes.

EXAMPLES OF DEER INDUSTRY-GOOD ACTIVITY

Some of the specific issues and committees on which Deer Industry New Zealand has worked to represent deer industry interests in 2003/04 include: Agricultural Statistics Strategy; Animal Behaviour and Welfare Consultative Committee; Animal Biosecurity Consultative Committee; Animal Health Board Tb NPMS - research priorities, members committee, Deer-RAHC working group; Animal Identification; Animal Remedies Dispensing Regulations; Animal Welfare Research User's Group; Biosecurity Strategy and Exotic Disease Response Plans; Bioterrorism Regulations; China free trade agreement; CWD Technical Response Plan; Surveillance and imported animal register; DoC fencing standards and Northland deer plan; HSNO Act changes and compliance costs; Human resources and capability in agriculture-horticulture; Johnes: research group; pan-industry research; Kyoto Protocol and Cartagena Protocol; Land Access; Local and Regional Council plans and issues – eg Canterbury, Queenstown; Ruminant feed ban regulations; USA Country-of-Origin Labelling rules; Varroa Bee Mite NPMS.

Protecting And Enhancing Value

RESEARCH EXPENDITURE IN 2003/04 AMOUNTED TO \$1,341,671
– 20% OF TOTAL EXPENDITURE (EXCLUDING AHB).

Spend was broken down as follows: grant to Game Industry Research Trust, \$59,695; Velvet Antler Research Ltd (VARNZ), \$843,864; DEERResearch Ltd \$438,112.

VARNZ

Board: Richard Janes (Chairman), MJ Loza, William Rolleston, Jimmy Suttie, Doug Wilson. Research undertaken by VARNZ, with deer industry and AgResearch funding included:

- Ongoing trials (product stability, efficacy etc) to support the potential commercialisation of a specialised velvet extract to assist wound healing.
- Advanced genetic research techniques (micro-arrays) to identify genes in antler with possible new health promoting applications.
- Access to and investigation of a commercial database of velvet gene sequences to assist work identifying novel, functional genes in velvet.
- Research conducted in the USA and presented at the ASPT2 Symposium in Queenstown in February supporting velvet's use to enhance athletic performance.
- Research to address regulatory issues and to ensure ongoing farmer access to anaesthetics for velvet removal. Specifically this research;
 - Investigated levels of potential residues under current systems and the impact of tourniquet application, dose and processing.
 - Supported the establishment of Maximum Residue Levels for these products to enable ongoing farmer access.

- Researched safety, efficacy and residues of an alternative local and sedative to support possible registration of those products, if needed as a replacement for current products.
- Investigated the metabolism of current velvet removal products in the human body.

SPEND WAS BROKEN DOWN AS FOLLOWS: GRANT TO GAME INDUSTRY RESEARCH TRUST, \$59,695; VELVET ANTLER RESEARCH LTD (VARNZ), \$843,864; DEERESEARCH LTD \$438,112.

DEERResearch

Board: Collier Isaacs (Chairman), Noel Beatson (DEA), Graham Barrell (Universities), Bridgit Hawkins (AgResearch), Graeme Keeley (Venison Processors/Exporters), MJ Loza (Deer Industry New Zealand) and Warren Parker (AgResearch – replaced by Peter Benfell after year end).

Research funded by DEERResearch in 2003/04 included:

- Animal health – supporting the John's Research Group including John's epidemiology work, looking at diagnostic tools and a vaccine for John's in deer, development of a new Tb test, heritability of

Tb resistance, prevention and management of leptospirosis, effect of Molybdenum on copper status of deer.

- Productivity – effect of genotype on reproductive performance, pasture management workshops, participation in Pastoral Genomics consortium (improved pasture – non-GM), information to assist stag selection, strategies to achieve early calving, understanding deer lactation, providing a tool for assessing wapiti hybridisation to assist improving reproduction.
- Environment and sustainability – participation in Pastoral Greenhouse Gases Research Consortium, impact of forage herbs on deer methane emissions, barriers to adoption of new land-management practices, stream recovery, impact of trees on mitigating soil and pasture damage, adapting OVERSEER nutrient budgeting for deer.
- Venison Processing – development of rapid test development for product quality assessment, optimising processing for tenderness and colour.

For more information see: www.DEERResearch.org.nz.

GAME INDUSTRY RESEARCH TRUST

Trustees: Jeffrey Pearse (Chairman), John Scurr and Andrew Duncan.

The Research Trust has not funded any new research this year. However, it is expected to be in full operation again in the coming year.

VENISON

Mat Moyes, Venison Marketing
Services Manager



Investment In Venison

2004 SAW THE INDUSTRY CONTINUE TO REBUILD, EXPAND EXISTING MARKETS AND DEVELOP NEW ONES.

With the continued rebuilding of key markets, confidence rose, along with price levels for some items. Throughout the year, farm-gate returns remained at historically low levels, influenced by a strong New Zealand dollar, weak economies in our major markets and high production.

STRATEGIC INVESTMENT

Industry strategy, based on development of the retail sector, promoting the country-of-origin and developing year-round consumption of New Zealand venison, drove record levels of market development investment.

Exporters and their market partners actively support this strategy and clearly see significant opportunities for New Zealand venison outside its current

traditional confines. The retail sector, in particular, is seen as an important component of developing year-round consumption and actively promoting New Zealand as the country-of-origin to consumers worldwide.

RETAIL PROMOTION IN GERMANY

Sommerkampagne, designed to introduce German consumers to New Zealand venison at the height of the German summer, provided significant media exposure and consumer interest at a time when venison is traditionally far from the minds of most Europeans.

A combination of consumer tastings and trade and consumer media coverage in a wide mix of publications drew over 200,000 German consumers to participate

in the promotion – each receiving venison recipe information. *Sommerkampagne*, which included a raft of special summer point-of-sale materials, incorporated Supermarket Tasting Tours, integrating generic promotion with consumer tasting and sales activity at the point of purchase.

PROMOTIONAL INVESTMENT LEVERAGED

The joint promotional programme is the central vehicle for industry investment in venison promotional projects worldwide. The budget leverages promotional investment from exporters and their market partners, maximising the total promotional spend and promoting a consistent message, including country-of-origin, the nutritional benefits of New Zealand venison, versatility and,

therefore, its suitability for year-round consumption.

In 2004, Deer Industry New Zealand contributed \$1 million to joint promotion, which leveraged a total promotional investment of \$2.5 million worldwide – a \$2.50 total promotional spend from every industry \$1.00 invested. Investment stretched across 12 markets, and covered both foodservice and retail projects.

Some examples of joint promotions include:

- High profile venison presence at major international food fairs including ANUGA (Germany, October 2003), Intermeat (Germany, September 2004) and SIAL (France, October 2004).
- Retail tasting programmes in both the North and South Islands of New Zealand, supported by point of sale materials, recipe booklets, consumer food show promotions, television and print advertising.
- A Swiss retail public relations programme, with print advertisements in weekly newspapers to two million consumers and point of sale (POS) materials in 590 stores.
- Quarterly German cash and carry promotions, with chef tastings, weekly mail drops, butcher and sales-force training, and a series of special venison promotional events.
- Sponsorship of chef and trainee-chef promotions, including the high profile Gordon Ramsay Scholarship and the NZ-UK Link Foundation Toast New Zealand exchange programme.
- Restaurant promotions and retail tasting programmes in new markets including Hong Kong, China and Thailand.
- Extensive promotional materials to support foodservice and retail market development in Germany, the Netherlands and France.
- Contracting a part-time Cervena promotions manager to help exporters and their market partners with promotions in the US.
- Portion-controlled steak promotions with a leading Benelux cash-and-carry chain. Activity involved workshops and demonstrations as well as extensive in-store sampling.

NEW AND EMERGING MARKETS TAPPED

Significant efforts were made to develop new and emerging markets, focusing on the retail sector.

Building on promotions in 2003, the New Zealand market received continued investment in 2004, with new retail products, television campaigns alongside trade and consumer shows. The industry maintained its commitment to local chef education, with a polytechnic education programme giving trainee chefs throughout the country exposure to New Zealand venison.

Emerging markets, such as Hong Kong and China, saw investment primarily in education and training.

As well as chef and butcher visits, 2004 saw attendance at major Chinese trade shows, a series of Hong Kong restaurant promotions and a supermarket tasting programme.



Venison sampling at a trade show in China.

FRANCE OPENS UP

INDUSTRY EFFORTS TO DEVELOP OUT OF SEASON CONSUMPTION IN FRANCE CAN BEGIN IN EARNEST.

Prolonged, and considerable, pressure supported by Minister Sutton and the Ministry of Foreign Affairs and Trade, resulted in success in February 2004 for Deer Industry New Zealand's efforts to gain year-round access to the French market. Having achieved market access, industry efforts to develop out of season consumption in France can begin in earnest, and are well supported by market partners.

Pressure continues to be placed on Belgian authorities, where regional restrictions potentially create ambiguity and limit market opportunities.

Following a series of meetings in 2003 with Norwegian officials and producer representatives, the Board continues to look to improve

market access conditions in Norway. Communication and partnerships with Norwegian farmers is seen as a critical component to achieving improved access.



His Excellency Mr Adrian Macey, New Zealand Ambassador to France (left), His Excellency Mr Jean-Michel Marlaud the French Ambassador to New Zealand (centre) toast year-round success for New Zealand Venison into France with Clive Jermy.

Photo: © Anthony Phelps, 2004.



VELVET

Mark O'Connor, General Manager
Marketing.



Access To More Markets Vital

NEW ZEALAND VELVET INDUSTRY RETURNS WERE DISAPPOINTING IN THE 2003-04 PERIOD REFLECTING VERY DIFFICULT TRADING CONDITIONS.

Two patent applications were filed for a wound-healing product made from New Zealand velvet and New Zealand hosted a successful international velvet research symposium. A major project resolved velvet removal issues, but the industry must remain vigilant and ongoing compliance is critical.

MORE VELVET – LOWER RETURNS

The New Zealand velvet industry produced 548 tonnes of frozen velvet in the 2003/04 velvet season, up 4% on the previous season's 529 frozen tonnes.

The weighted average pool price per kg was a disappointing \$58, down 41% on the previous season's \$99.

New Zealand exported 228 tonnes (dried equivalent, FOB, provisional) velvet to year ended September 2004 valued at some \$28 million. By volume, this is an increase of 37% over the preceding period while by value returns dropped by 6% reflecting lower per kg export values.

The poor returns in New Zealand were in part due to the weakness of the Korean won (KRW) against the

New Zealand dollar, combined with the slow Korean economy with lower consumer confidence, high oil prices, carried-over velvet stocks from SARS and increasing velvet production in New Zealand and elsewhere.

Exporters continued to report increases in frozen exports from New Zealand. This remains a serious threat for New Zealand-based velvet processors.

PRESSURE ON FOR ACCESS

Following retention of legal assistance to remove the Korean Special Excise Tax on

deer velvet, the unfair tax was tabled for abolition at a high level in the Korean Government but was taken off the table at the final hurdle. Despite this, it was lowered temporarily from 7% to 4.9% during the year.

Activity was stepped up by the New Zealand velvet industry to increase frozen velvet access to Taiwan from the current five tonne quota. Good commercial opportunity is seen and, strategically, increased velvet exports to Taiwan may more quickly divert volumes from Korea.

Korean Food and Drug Administration officials inspected and approved 11 New Zealand velvet premises to export sliced velvet to Korea. Reportedly, the Korean Government is in the final stages



of signing off the arrangements.

China continues to represent an exciting opportunity for the future – if meaningful access can be achieved. A 'Free Trade Agreement' with China will assist efforts and the New Zealand industry remains focused on improving access conditions.

FIVE-YEAR STRATEGY DEVELOPED

The industry developed a five-year strategic plan identifying six key opportunities for industry growth and development. The plan has measurable targets and goals and opportunities are split between traditional and new markets.

SECOND ANTLER SCIENCE AND PRODUCT TECHNOLOGY SYMPOSIUM (ASPT2)

ASPT2 took place in February in Queenstown. 150 delegates from New Zealand, Australia, China, Korea, Taiwan, UK, Canada and USA attended. Presentations by Kiwi scientists positioned New Zealand clearly at the forefront of worldwide velvet research.

WOUND HEALING BENEFITS FROM DEER VELVET

Two international patents for wound healing benefits from deer velvet were filed in May 2004. Trials to date have shown exceptional wound healing activity and work is stepping up to show stability, safety and develop formulations as the work moves towards safety, human clinical trials and commercialisation.

POOR RETURNS IN NEW ZEALAND WERE IN PART DUE TO THE WEAKNESS OF THE KOREAN WON.

REGULATORY COMPLIANCE COSTS

Issues remain with increasing compliance costs in the velvet industry, such as industry concern at increasing plant compliance costs, the proposed trans-Tasman regulatory agency for therapeutic products and the velvet storage depot code of practice.

VELVET REMOVAL OPTIONS MAXIMISED

IMPENDING REGULATORY CHANGES MEANT VELVET REMOVAL RESEARCH WAS DOMINATED IN 2004 BY WORK TO MAXIMISE VELVET REMOVAL OPTIONS.

Changes to the velvet removal programme were implemented based on research results including application of a tourniquet before lignocaine administration – now incorporated into the National Velveting Standards Body (NVSB) programme – to further improve food safety outcomes.

A substantial body of work, combined with independent

toxicological reviews of xylazine and lignocaine, enabled the New Zealand Food Safety Authority to revise the Maximum Permissible Levels (MPLs) for the remedies, which enabled their continued use for velvet removal.

Work on an alternative local anaesthetic continues and if required by industry, is expected to be available by September 2005.

The new, more flexible, NVSB Code of Practice replaced the old 1994 regulations in July and legally enables farmers to access Prescription Animal Remedies for velvet removal.

The challenge now is to demonstrate compliance with the new MPLs and to refine options to ensure continued compliance with market and regulatory

needs relating to velvet removal in terms of both animal welfare and food safety.

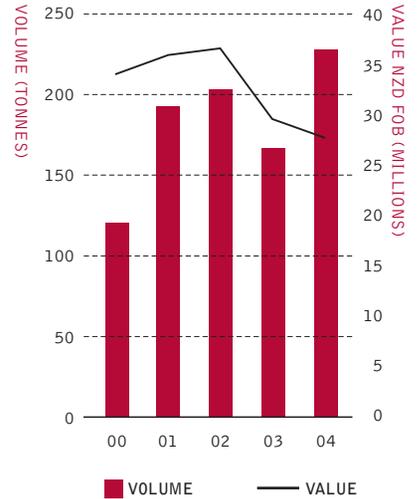


An Industry Snapshot

Pictures of various promotional activities undertaken during the year.

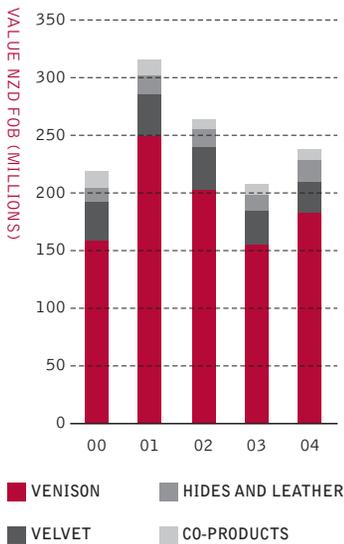


VELVET EXPORTS



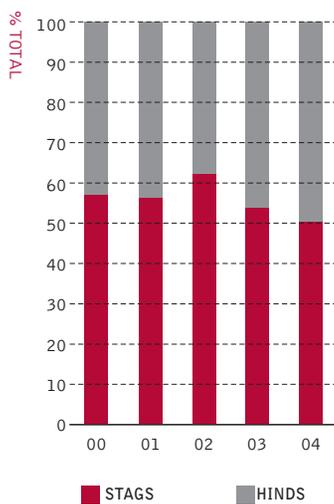
New Zealand exported just over 228 tonnes of dried equivalent velvet to year-end September 2004 worth \$27.7 million FOB. Volume rose by 37% over the previous year, but value dropped by 6%, reflecting the lower per kg export values.

TOTAL EXPORT EARNINGS



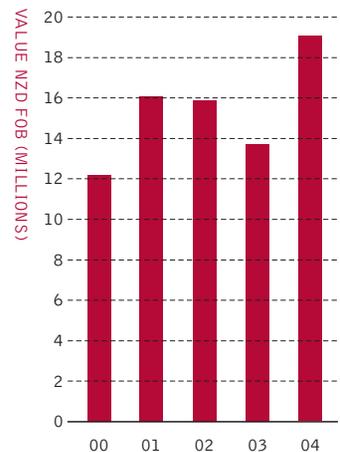
Velvet, venison, hides and leather and co-products from farmed deer together earned New Zealand over \$237.2 million in the year to end September 2004. Venison accounted for 77% of the returns, velvet 12%, hides and leather 8% and co-products 4%. The weak Euro and US dollar, compared with the New Zealand dollar, impacted heavily on the returns, cutting 33 cents per kg off venison earnings and \$9.20 per kg from velvet.

VENISON PRODUCTION



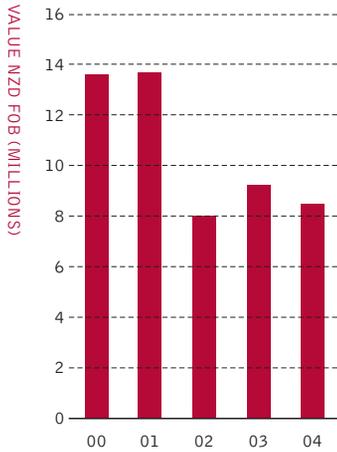
Hinds at the September 2004 year-end comprised 50% of venison production for the year compared with 46% the previous year, and up nearly 6% on the average for the previous five-year period. Increased total venison production and in particular, an increased hind kill will impact on the future breeding herd size. Hinds make up around 70% of the national herd so changes in their number impact on the future size of kill and herd growth.

HIDES & LEATHER



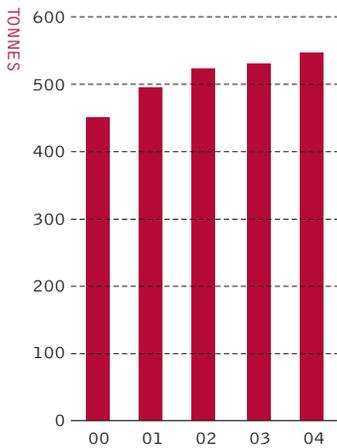
At year ending September 2004, returns from New Zealand deer hides and leather took a big 39% jump up on the previous year to \$19,046,974 – 56% more than four years earlier in the year ending September 2000.

CO-PRODUCTS EXPORTS



In contrast to hides, at the year ending September 2004, the value of co-products – including tails, sinews, pizzles and blood – dropped by 8% on the year earlier to \$8,472,096. This is a decrease of 38% on four years earlier.

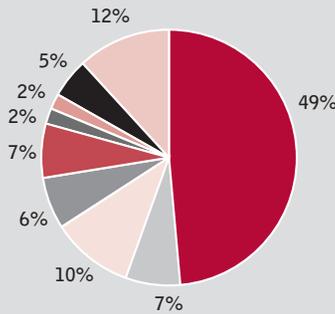
VELVET PRODUCTION



548 tonnes of New Zealand velvet was produced over the year, slightly ahead of last year.

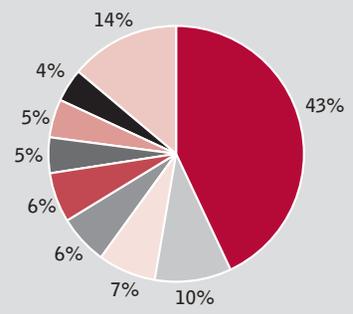
Sources: Export data, Statistics New Zealand
Production data, Deer Industry New Zealand.

VENISON EXPORTS 2000 BY MARKET



Germany remains New Zealand's single largest market for venison but at the year end 30 September 2004, accounted for only 43% of total volume – a 6% drop on four years earlier. Belgium, France, USA, Sweden,

VENISON EXPORTS 2004 BY MARKET

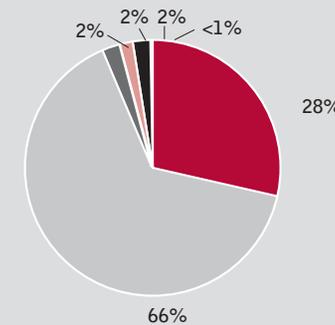


Austria, Italy and Switzerland remain important. Other customers include new markets – Taiwan, Australia, the UK, Netherlands and Korea.

KEY

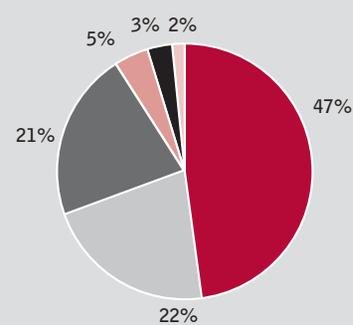
- GERMANY
- USA
- ITALY
- BELGIUM
- SWEDEN
- SWITZERLAND
- FRANCE
- AUSTRIA
- OTHER

VELVET EXPORTS 2000 BY MARKET



In volume, at 47% the Republic of Korea was the biggest market for New Zealand velvet for the year ending September 2004. Reliance on Hong Kong as the conduit into Asia has relaxed over the past four years, with buyers in the People's

VELVET EXPORTS 2004 BY MARKET



Republic of China and the Taiwan Province of China also buying directly from New Zealand.

KEY

- KOREA (Republic of)
- USA
- HONG KONG (Special Admin Region)
- TAIWAN (Republic of China)
- CHINA (Peoples Republic of)
- OTHER

**TO THE READERS OF DEER INDUSTRY NEW ZEALAND AND GROUP'S FINANCIAL
STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004**

The Auditor-General is the auditor of Deer Industry New Zealand and Group. The Auditor-General has appointed me, M R Wilkes, 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 2004.

UNQUALIFIED OPINION

In our opinion:

- the financial statements of Deer Industry New Zealand and Group on pages 13 to 21:
 - 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 2004; 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 20 December 2004, and is the date at which our opinion is expressed.

The basis of the 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 give 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 the 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 the 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 2004. 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 Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out assignments in the areas of tax, levy audits and acting as a returns officer for polling, 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.



M R Wilkes

Deloitte

On behalf of the Auditor-General

Wellington, New Zealand

DEER INDUSTRY NEW ZEALAND

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 SEPTEMBER 2004

	Notes	Consolidated 2004 \$	Consolidated 2003 \$	Parent 2004 \$	Parent 2003 \$
INCOME					
Levy Income Venison	2	4,425,912	3,051,491	4,425,912	3,051,491
Levy Income Velvet		1,913,106	1,588,147	1,913,106	1,588,147
Interest Received		166,169	182,969	122,771	160,459
Other Income		101,968	94,779	101,968	94,779
Net Animal Health Board Levy Received/(Paid)	3	(659,989)	670,817	(659,989)	670,817
Foreign Currency Gain/(Loss)		(4,381)	9,796	(4,381)	9,878
Total Income		5,942,785	5,597,999	5,899,387	5,575,571
EXPENDITURE					
OPERATING EXPENDITURE					
Audit Fees	4	18,000	20,895	18,000	20,895
Depreciation	6	64,143	61,009	64,143	61,009
Board and Directors' Fees and Expenses	9	251,254	263,042	237,048	247,252
Insurance		208,084	202,806	208,084	202,806
Other Fees Paid to Auditors		16,913	19,613	16,913	18,863
Other Operating Expenses		406,052	391,987	353,116	331,434
Premises Rental and Costs	11	118,974	40,150	118,974	40,150
Total Operating Expenditure		1,083,420	999,502	1,016,278	922,409
COMMUNICATIONS		386,642	309,185	386,642	309,185
QUALITY ASSURANCE		257,633	232,371	257,633	232,371
PRODUCER MANAGEMENT		160,991	140,889	160,991	140,889
VENISON PROMOTION					
Generic Promotion		1,487,217	660,265	1,487,217	660,265
Joint Promotion		1,020,220	681,235	1,020,220	681,235
Total Venison Promotion		2,507,437	1,341,500	2,507,437	1,341,500
VELVET					
Promotion		270,397	281,231	270,397	281,231
Velvet Removal		390,064	272,571	390,064	272,571
Product Information and Issues Management		84,984	290,729	84,984	290,729
Total Velvet Expenditure		745,445	844,531	745,445	844,531
OTHER					
Grant To Cervena Trust Limited		0	0	66,496	51,289
Provision for Amount Receivable from Cervena Trust Ltd		0	0	0	6,730
Research	14	1,291,976	722,606	1,341,671	1,072,606
Total Other Expenditure		1,291,976	722,606	1,408,167	1,130,625
Total Expenditure		6,433,544	4,590,584	6,482,593	4,921,510
Net (Deficit)/Surplus Before Taxation		(490,759)	1,007,415	(583,206)	654,061
Taxation	5	0	0	0	0
Net (Deficit)/Surplus After Taxation		(490,759)	1,007,415	(583,206)	654,061

The accompanying notes on pages 16 to 21 form part of these financial statements.

DEER INDUSTRY NEW ZEALAND

STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS FOR THE YEAR ENDED 30 SEPTEMBER 2004

Notes	Consolidated 2004 \$	Consolidated 2003 \$	Parent 2004 \$	Parent 2003 \$
Opening Accumulated Funds	2,071,610	1,064,195	1,284,273	630,212
Net Group (Deficit)/Surplus	(490,759)	1,007,415	(583,206)	654,061
Total Recognised Gains and Losses	(490,759)	1,007,415	(583,206)	654,061
Closing Accumulated Funds	1,580,851	2,071,610	701,067	1,284,273
Closing Accumulated Funds Relate to:				
Deer Industry New Zealand	1,155,481	1,656,431		
Game Industry Research Trust	425,370	415,179		
	1,580,851	2,071,610		

DEER INDUSTRY NEW ZEALAND

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2004

Accumulated Funds	10	1,580,851	2,071,610	701,067	1,284,273
Represented by:					
Current Assets					
Short Term Bank Deposits		2,539,086	3,226,326	1,673,854	2,406,142
Accounts Receivable		789,310	778,960	786,155	777,476
Prepayments		19,879	13,935	19,879	13,935
Intercompany Account Cervena Trust		8,889	8,889	0	0
Intercompany Account Cervena Company Ltd		0	0	(100)	1,900
Total Current Assets		3,357,164	4,028,110	2,479,788	3,199,453
Less Current Liabilities					
Accounts Payable		636,982	1,023,265	590,871	862,328
Accruals		855,983	627,382	855,983	627,382
Employee Entitlements	12	55,811	115,295	55,811	115,295
Intercompany Account Group Research Holdings Ltd		0	0	392,821	439,108
Intercompany Account Zeal Quality Assurance Ltd		0	0	0	1,000
Intercompany Account VARNZ Ltd		344,002	319,191	0	0
Total Current Liabilities		1,892,778	2,085,133	1,895,486	2,045,113
Non Current Assets					
Fixed Assets	6	116,465	128,633	116,465	128,633
Investment in Subsidiaries		0	0	300	1,300
Total Non Current Assets		116,465	128,633	116,765	129,933
Net Assets		1,580,851	2,071,610	701,067	1,284,273

CLIVE JERRY, CHAIRMAN OF THE BOARD

20 December 2004

JOHN SCURR, CHAIRMAN OF AUDIT COMMITTEE

20 December 2004

The accompanying notes on pages 16 to 21 form part of these financial statements.

DEER INDUSTRY NEW ZEALAND

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2004

	Consolidated 2004 \$	Consolidated 2003 \$	Parent 2004 \$	Parent 2003 \$
Cashflows from Operating Activities				
Cash was provided from:				
Venison and Velvet Levies	5,655,828	5,311,562	5,655,263	5,310,836
Interest Received	179,020	167,834	137,858	145,444
Other Operating Income	101,968	94,779	101,968	94,779
	5,936,816	5,574,175	5,895,089	5,551,059
Cash was applied to:				
Payments for Goods and Services	6,561,959	4,610,424	6,565,280	4,986,669
Resident Withholding Tax Received	0	(4,105)	0	0
	6,561,959	4,606,319	6,565,280	4,986,669
Net Cashflows from Operating Activities	(625,143)	967,856	(670,191)	564,390
Cashflows from Investing Activities				
Cash was applied to :				
Purchase of Fixed Assets	57,716	91,978	57,716	92,378
Net Cashflows from Investing Activities	(57,716)	(91,978)	(57,716)	(92,378)
Net (Decrease)/Increase in Cash Held	(682,859)	875,878	(727,907)	472,012
Opening Cash Balance	3,226,326	2,340,652	2,406,142	1,924,252
Effect of exchange rate change on foreign currency balances	(4,381)	9,796	(4,381)	9,878
Closing Cash Balance	2,539,086	3,226,326	1,673,854	2,406,142
Reconciliation of Net (Deficit)/Surplus After Tax with Net Cashflows from Operating Activities				
Reported (Deficit)/Surplus	(490,759)	1,007,415	(583,206)	654,061
Add:				
Non Cash Items	74,265	54,495	74,265	52,416
Movement in Working Capital	(208,649)	(94,054)	(161,250)	(142,087)
Net Cashflows from Operating Activities	(625,143)	967,856	(670,191)	564,390

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004

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 was the operating name of the Game Industry Board until 21 October 2004. Effective this date, the Deer Industry

New Zealand Regulations 2004 came into force superseding 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 2004:

- **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 2004.
- **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.

The following entities have not been consolidated for the period ended 30 September 2004:

- **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.
- **Zeal Quality Assurance of New Zealand Limited**
A wholly owned subsidiary which is responsible for the Zeal quality standards which was consolidated in the 2003 financial statements. This company has not operated for the year ended 30 September 2004 and was removed from the companies register on 19 December 2003.
- **Cervena Council Limited**
Cervena Council Limited was a wholly owned subsidiary of Cervena Trust Limited until it was wound up and removed from the Register of Companies in the 2003 financial year. Cervena Council Limited was responsible for the development and implementation of the Cervena marketing strategy until this time by way of sub-license contracts with participating processors and exporters. Effective 1 October 2002, the sub-licensees have a direct licensing arrangement from Cervena Trust Limited.

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 expenditure. An Annual Report for VARNZ is available on request from Deer Industry New Zealand. VARNZ Limited has a 30 September balance date.
- **DEEResearch Limited**
DEEResearch Limited is a joint venture company, whose shareholders are AgResearch Limited (50 percent), Group Research Holdings Limited (25 percent) and the New Zealand Deer Farmers' Association (25 percent). 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 expenditure. An Annual Report for DEEResearch Limited is available on request from Deer Industry New Zealand. DEEResearch Limited has a 30 June balance date.

DEER INDUSTRY NEW ZEALAND**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2004**

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 provided 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 – Five years; Computer Equipment – Three Years.

GST

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

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.

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. LEVY INCOME VENISON

The increase in venison levy income in the current financial year represents an increase in production and an increase in the venison levy rate to fund additional promotional activity.

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 monthly payments based on the annual contribution agreed with the AHB. At the end of the financial year, there is a difference between amounts collected and amounts paid due to the variation between actual and forecast production, on which levy is collected. This difference is adjusted when the levy rate for the next financial year is calculated. The net balance received/paid for the financial year is disclosed within Income in the Statement of Financial Performance.

Deer Industry New Zealand received a refund of \$362,291 from the AHB in the 2003 financial year due to an underspend by the AHB from the 2001/02 financial year. This, together with the over recovery in the 2003 financial year due to actual production being higher than budget, resulted in a net AHB levy received of \$670,817, which was adjusted for in the 2003/04 financial year by the setting of a lower levy collection rate. The lower rate also reflected a re-negotiated funding formula resulting in a reduced deer industry share of the AHB's indivisible costs.

	Parent & Consolidated 2004 \$	Parent & Consolidated 2003 \$
AHB levies collected	950,440	3,347,527
AHB levies paid	(1,610,429)	(2,676,710)
Net AHB Levy Received	(659,989)	670,817

NOTES

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004

4. AUDIT FEES

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

Audit of Deer Industry New Zealand:	\$16,000
Audit of other Group entities:	\$2,000

5. TAXATION

	Consolidated 2004 \$	Consolidated 2003 \$	Parent 2004 \$	Parent 2003 \$
Net (Deficit)/Surplus Before Tax	(490,759)	1,007,415	(583,206)	654,061
Permanent Differences	49,737	(350,164)	53,130	22,022
Tax @ 33%	(441,022) (145,537)	657,251 216,893	(530,076) (174,925)	676,083 223,107
Deferred Tax Asset not Previously Recognised	145,537	(216,893)	174,925	(223,107)
Income Tax Charge as per Statement of Financial Performance	-	-	-	-
Imputation Credits				
	Consolidated 2004 \$	Consolidated 2003 \$	Parent 2004 \$	Parent 2003 \$
Opening Balance	1,145,153	1,147,035	500,749	500,749
Resident Withholding Tax Refunded	(65)	(1,947)	-	-
Resident Withholding Tax Paid	8	65	-	-
Closing Balance	1,145,096	1,145,153	500,749	500,749

Deer Industry New Zealand, Cervena Company Limited, Zeal Quality Assurance of New Zealand Limited, Cervena Council 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 \$1,226,140 (2003: \$826,651) 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

	Cost \$	Accumulated Depreciation \$	Depreciation 2004 \$	Depreciation 2003 \$	Parent & Consolidated NBV 2004 \$	Parent & Consolidated NBV 2003 \$
Furniture & Fittings	70,019	20,029	15,364	13,576	49,990	46,279
Computer Equipment	323,419	259,424	47,712	46,263	63,995	78,807
Office Equipment	33,994	31,514	1,067	1,170	2,480	3,547
Total	427,432	310,967	64,143	61,009	116,465	128,633

DEER INDUSTRY NEW ZEALAND**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2004****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.

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

Fair Value

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

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 18% were denominated in foreign currency.

Credit Risk

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

At balance date, foreign currency deposits totalled \$116,370 (2003: \$47,544). There were no foreign currency contracts open at balance date. 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. Under the transition to Deer Industry New Zealand and effective 21 October 2004, the Board comprises eight members, a reduction from ten.

The 2004 year total for Deer Industry New Zealand is \$237,048 (2003: \$247,252). This comprises \$183,132 in Board fees (2003: \$197,500), \$12,600 in additional domestic and overseas representation fees for Mr Clive Jermy (2003: \$4,000); and \$41,316 in travel and accommodation expenses (2003: \$39,752).

There were no additional domestic representation fees payable in 2004; in 2003 fees of \$2,000 each were incurred for Mr Michael Rice, Mr Andrew Thomson and Mr Michael Pattison.

The following changes in Board composition have taken place this year:

- Mr Michael Rice resigned from the Board on 19 January 2004 and was replaced on this date by Mr Andrew Duncan;
- Mr Chris Newton resigned from the Board and was replaced by Mr Stuart Natrass on 1 April 2004;
- Mr Andrew Thomson resigned from the Board effective 30 June 2004 and was not replaced;
- Mr Michael Pattison resigned from the Board on 1 November 2004 as per Schedule 2 of the Deer Industry New Zealand Regulations 2004 and was not replaced.

Cervena Company Limited

Mr Michael Rice received fees of \$500 in his capacity as Chairman (2003: \$2,000). Michael Rice resigned as a director on 19 January 2004 and was replaced by Michael-John Loza who received no fees for this position. There were no travel expenses.

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 \$1,706. (2003: \$1,790).

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004

10. ACCUMULATED FUNDS

The accumulated funds of the Group are \$1,580,851 (2003: \$2,071,610), of which \$425,370 (2003: \$415,179) 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.

11. PREMISES RENTAL AND COSTS

The increase in premises costs in the financial year to 30 September 2004 represents the additional cost of moving to new premises and fulfilling one-off lease redemption provisions of the previous office.

12. EMPLOYEE REMUNERATION AND ENTITLEMENTS

Remuneration ranges for employees of Deer Industry New Zealand and its controlled entities are:

Remuneration Range	Number of employees	
	For the year ended 30 September 2004	For the year ended 30 September 2003
Less than 100,000	7	11
110,000 – 119,999	1	0
190,000 – 199,999	1	1

There were eight members of staff employed as at 30 September 2004 (2003: nine). A list of staff employed as at 30 September 2004 is detailed within the annual report.

Employee entitlements within the Statement of Financial Position represent amounts due to employees in respect of accrued wages and days accrued as annual leave as at the balance date.

13. VELVET QUALITY MARK

During the prior financial year, Deer Industry New Zealand made a gift of the intellectual property attributed to the velvet quality trademark programme to Velvet Quality New Zealand Trust Limited at a value of

\$45,000, being the cost of establishing this trademark. Deer Industry New Zealand received no payment for this transfer.

14. RELATED PARTIES

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

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.

During the year Deer Industry New Zealand provided research grants to associated entities: Velvet Antler Research New Zealand Limited (2004: \$832,864; 2003: \$377,153) and DEEResearch Limited (2004: \$413,973; 2003: \$269,749). This funding is provided via Group Research Holdings Limited. Deer Industry New Zealand also provided a research grant to the Game Industry Research Trust of \$nil (2003: \$350,000).

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.

An operational grant of \$66,496 (2003: \$51,289) was provided from Deer Industry New Zealand to Cervena Trust Limited. The remainder of the balance due from Cervena Trust Limited (2004: \$nil; 2003: \$6,730) has been provided for as Cervena Trust Limited has insufficient funds to repay the debt.

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2004**15. COMMITMENTS**

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

	Parent & Consolidated 2004 \$	Parent & Consolidated 2003 \$
Not later than 1 year	57,011	38,012
Later than 1 year and not later than 2 years	57,011	38,012
Later than 2 years	209,042	19,006

Commitments in respect of research contracts entered into by DEERResearch Limited are as follows:

	2004 \$	2003 \$
Not later than 1 year	286,875	231,000
Later than 1 year and not later than 2 years	186,250	205,000
Later than 2 years	85,625	93,750

16. CONTINGENCIES

Deer Industry New Zealand's associated entity DEERResearch Limited has two wholly-owned subsidiary entities which have been established to hold DEERResearch Limited's interest in two unincorporated joint ventures; Pastoral Greenhouse Gas Research Consortium (2.34% holding) and Pastoral Genomics Consortium (1.1% holding). DEERResearch 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.

Deer Industry New Zealand has entered into an agreement with Kim, Shin & Yu of Korea that includes a success fee equivalent to approximately NZ\$67,000, which is payable upon successful completion of the contracted project.

DEER INDUSTRY NEW ZEALAND EXECUTIVE AS AT 30 SEPTEMBER 2004

	POSITION	DIRECT LINE	MOBILE	EMAIL
Janice Attrill	Systems Manager	(04) 471 6114	—	janice.attrill@deernz.org
Susan Gee	Finance Manager	(04) 474 0824	—	susan.gee@deernz.org
Rob Gregory	NVSB Manager	(04) 471 6116	(021) 231 6657	rob.gregory@deernz.org
MJ Loza	Chief Executive Officer	(04) 471 6112	(021) 993 389	mj.loza@deernz.org
Mat Moyes	Venison Marketing Services Manager	(04) 471 6111	(021) 465 121	mat.moyes@deernz.org
Mark O'Connor	General Manager – Marketing	(04) 471 6113	(021) 743 624	mark.oconnor@deernz.org
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

Graham Brown	Contracted Chef		graham.brown@deernz.org
John Moynihan	Technical Consultant		john.moynihan@extra.co.nz
Ali Spencer	Communications Consultant		ali@spencerpr.com



**DEER INDUSTRY
NEW ZEALAND**

PO Box 10-702, Level 13, PricewaterhouseCoopers Tower
113-119 The Terrace, Wellington, New Zealand
Telephone: +64 4 473 4500 Fax: +64 4 472 5549
Email: info@deernz.org www.deernz.org www.nzvenison.com