

DEER INDUSTRY NEW ZEALAND
ANNUAL REPORT 2002 — 2003

HIGHLIGHTS:



**DEER INDUSTRY
NEW ZEALAND**

INDUSTRY
RESTRUCTURING
IMPLEMENTED,
SAVING OVER
\$700,000 IN
LEVIES



MORE VENISON
PROMOTION IN
EUROPE THAN
EVER BEFORE



VELVET
REMOVAL
CHANGES
RESEARCHED

CONTENTS



DIRECT PRODUCER
COMMUNICATION
WORKING WELL
FOR INDUSTRY



INVESTMENT IN
RESEARCH
CONTINUED



ARGUING THE
INDUSTRY'S
CASE IN ALL
FORUMS

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CHAIRMAN'S REPORT CLIVE JERMY

STRATEGIC
PLANNING LOOKS
AHEAD TO 2008

Last year was one of the most difficult ever faced by the venison industry, yet there is clear evidence from the market today that the direction taken for the future positioning of our product is appropriate. Virtually all those involved in exporting, importing and distribution in our principal European markets share the same vision and are positive about the future.

Velvet, meanwhile, faces its own issues regarding the likely requirements for alternative methods of removal, overshadowed by the significant impact of the strength of our currency depressing prices to farmers by approximately 23% in the coming year.

In 2002 the stocks of higher-priced venison, unsold from the previous year's depressed market, were cleared and there is now the beginning of stabilisation, recovery and confidence rebuilding by the market. It has been a 'lose-lose' scenario with the lowest prices for venison in 15 years with no sector capitalising at the expense of the other.

Despite the clear recognition of the unprecedented and sustained fallout from 2001, there are a number of positive indications for the industry:

- Little or no surplus venison in the market.
- Clear recognition from all sectors that the future place for New Zealand venison is out-of-season and using retail as the key vehicle to reach a much larger audience than the restaurant sector.
- All year round consumption provides potential market growth triple that of the game season.

- Using 'Brand New Zealand' to promote our products at all levels has achieved a significant increase in awareness of New Zealand venison, aided by New Zealand's reputation as a safe food supplier.
- Rapid advancement of further-processed products such as home meal replacement and portion-controlled chef-ready items.
- Recognition that prices are too low and the desire to see values lift strategically.

Short-term issues must not be permitted to affect the agreed direction and strategy supported so positively by all our industry partners and clearly evident in the market today.

VELVET REMOVAL

Another crucial priority for the Board is the need for alternative methods for the removal of velvet (see page 13). Work into ways to possibly retain existing analgesics as well as the the registration of new products licensed for deer velvet removal is progressing to plan, but we continue to monitor developments and will respond accordingly.

A key issue for our industry remains our vigilance and compliance with welfare codes.

MARKET ACCESS

France – It has been an anathema to the Board that France, our largest market's neighbour with 60 million consumers, our third largest market and the cuisine capital of the world, illegally shuts its door to venison sales outside the traditional game season. Intense lobbying has taken place over the past two years, both from New Zealand and within France, to try to open this market. At the time of writing, positive signals were being received relating to a breakthrough, but formal notification from the French government is awaited.

Norway – A country of 4.5 million people, a very wealthy economy, outside the EU with a quota of only twenty tonnes of venison with tariffs at approximately \$30 dollars per kilogram, Norway is a challenge, but with real potential. Over 6,000 tonnes of venison is harvested and consumed, primarily by the hunting fraternity, with little domestic product reaching the main centres. Access would be most unlikely without the Norwegian deer farmers' lobby, which sees potential in capitalising on our market investment, and that relationship and collaboration is under development.



UNPARALLELED PRODUCER COMMUNICATION FOR INDUSTRY



CAUTIOUS SIGNS OF VENISON INDUSTRY RECOVERY AT YEAR-END



CONFIRMATION OF FRENCH ACCESS AWAITED

Korea – As announced at the FGM in May, the Board successfully negotiated sliced access for velvet to Korea, which paves the way for added-value products to enter the market ready for distribution to the end-user. This important breakthrough encourages more product to be processed in New Zealand rather than exported frozen and relationship building with retail pharmacy customers.

STRATEGIC PLANNING

A strategic review of current activities has been carried out by the Board to gauge programme relevance and appropriateness. Important challenges and goals in existing and new territories for the next five years are being discussed with exporters.

We believe much of our strategy and direction is appropriate, but we need to confirm specific objectives and set out milestones and timelines. The industry will learn more of these objectives and timelines soon.

Deer Industry New Zealand will continue to be refined to ensure the best possible service for stakeholders.

GIB REGULATIONS

Finally, after four years, the Ministry of Agriculture is dealing with our Regulation changes. This means that the 50/50 Board composition and 50/50 venison levy will become reality shortly. The Board will reduce by two members and venison levy sharing will be implemented to coincide with the Regulation changes. From that point, the Board will reflect a true industry partnership.

LEVY RE-MANDATING

As part of the voluntary changes implemented after the 1999 Game Industry Board reforms, a levy re-mandating will be undertaken every five years. Consequently, the Board will conduct a series of meetings in the New Year, followed by an industry poll. The Board's vision for the industry

will be presented, part of which will be the outcome of the strategic review which is currently under discussion with the export sector.

BOARD MEMBERS

Other than John Scurr being appointed Deputy Chairman, there was no other change at the Board table. Michael Rice has announced his retirement from the Board in the New Year and we acknowledge Michael's 17 years of dedication to the Board and the industry. Michael has been a true pioneer and professional and we will miss his valuable contribution.

It is entirely appropriate, after this extremely difficult year, that I acknowledge the dedication and professionalism of your Board and Executive for the greater industry-good. It has required extraordinary diligence and endeavour by all, in particular the outstanding professionalism of MJ Loza, our CEO, and his team.

CONCLUSION

Unequivocally, this year has been one of the most difficult in the industry's history with a second depressed year in venison, issues over velvet removal and the appreciation of our currency shaving significant value from export returns.

However, there are clear and positive signals emerging from European venison markets supporting our direction and philosophy for the future positioning of New Zealand Venison. Stocks have been moving, confidence is improving and product innovation, New Zealand branding and retail distribution are playing a significant part in forecasts for improving fortunes from our primary product.

The future for velvet should not be clouded by concerns over velvet removal as alternative and better options are on trial and we are on the cusp of promising scientific outcomes for velvet and medicinal usage with patents pending.

DEER INDUSTRY NEW ZEALAND

We close the first year of our industry's new structure with the knowledge that the restructure has been a resounding success.

- \$700,000 in levies saved.
- Outstanding executive support for the New Zealand Deer Farmers' Association (DFA).
- A level of communication to producers and DFA Chairmen second to none, we believe, in the agricultural sector.
- Producer issues brought straight to the Board table.
- Greater transparency than ever before with Deer Industry New Zealand budgets circulated for consultation with DFA, the Deer Industry Association, Velvet Processors' Association and now DFA Chairmen and Committees.

New markets are being opened up for venison and sliced access for velvet to Korea is an important breakthrough.

This industry must work collaboratively and harness the wealth of professional skills at our disposal. Without cooperation, discipline in supply and marketing, continued product innovation and market development, recovery and sustained profitability will be delayed. It's up to all of us to play our part.

**CLIVE JERMY,
CHAIRMAN**



CLIVE JERMY



JOHN SCURR

Clive Jermy (Chairman)

Palmerston, Otago

Nominated by the New Zealand Deer Farmers' Association. Managing Director and Chair of Stanfield's Bushey Park Ltd, farms near Palmerston; CIC Head of Delegation for New Zealand.

John Scurr (Deputy Chairman)

Wanaka, Otago

Nominated by the New Zealand Deer Farmers' Association. Shareholder of Velexco Ltd and PPCS Ltd; farms at Wanaka.

Stewart Barnett

Dunedin, Otago

Nominated by the New Zealand Deer Industry Association. CEO PPCS Ltd; Director of Air Foods NZ Ltd, Kiwi Fern Ltd, CFM Management Ltd, Slink Skins Canterbury Ltd, Supergrass Ltd, Broadoak Ltd, Global Technologies NZ Ltd, Richmond Ltd, New Zealand Lamb Co Ltd, PPCS USA Inc, PPCS (UK) Ltd, B Brooks (Norwich) Ltd.



STEWART BARNETT



JOHN MACDONALD

John MacDonald

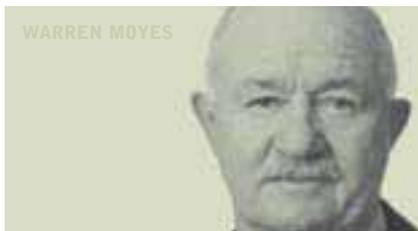
Christchurch, Canterbury

Nominated by the New Zealand Deer Industry Association. Owner/operator of Canterbury Antler Ltd; Director of Cinema 3 Ltd and Bellbrook Investments Ltd.

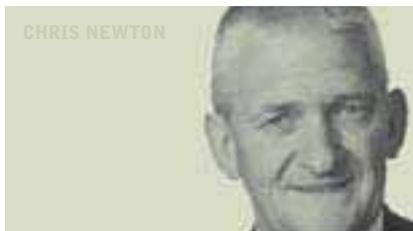
Warren Moyes

Whangarei, Northland

Nominated by the New Zealand Deer Farmers' Association. Chair of New Zealand Electricity Networks Association, Northpower Ltd and Metropower Ltd; shareholder of Deer Products International; farms near Whangarei.



WARREN MOYES



CHRIS NEWTON

Chris Newton

Hastings, Hawkes Bay

Nominated by the New Zealand Deer Industry Association. Chief Manager Marketing, Richmond Ltd, Director of Richmond New Zealand Ltd and the following Richmond subsidiary and associated companies: Richmond Europe, Brussels; Richmond Oman; Richmond Lonsdale UK; Richmond Waitotara Europe, Rotterdam; Richmond Speciality Beef Importers USA; Richmond Singapore, Richmond Japan. Director of NZ Lamb Company.

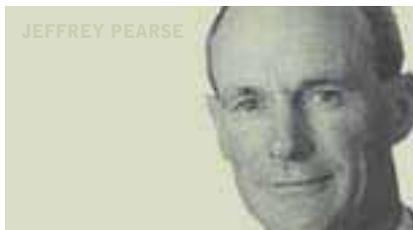
Michael Pattison

Silverstream, Upper Hutt

Nominated by the New Zealand Deer Farmers' Association. Marketing Consultant; Director and shareholder, Velvet Quality New Zealand Trust Ltd.



MICHAEL PATTISON



JEFFREY PEARSE

Jeffrey Pearse

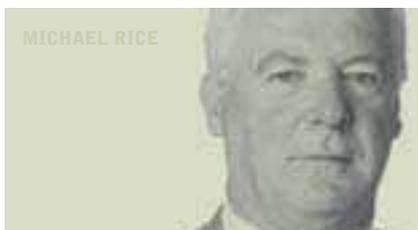
Waitohi, South Canterbury

Nominated by the New Zealand Deer Farmers' Association. Chair of the Game Industry Research Trust; shareholder of Velexco Ltd; farms near Temuka.

Michael Rice

Christchurch, Canterbury

Nominated by the New Zealand Deer Industry Association. Trustee Game Industry Research Trust; Director of Cervena Company Ltd.



MICHAEL RICE



ANDREW THOMSON

Andrew Thomson

Thorndon, Wellington

Appointed by the Minister of Agriculture. Director of Abacus Biotech Ltd, New Zealand Railways Corporation, Ruapapa Ltd; Chair of Group Research Holdings Ltd, VARNZ Ltd and Victoria University Foundation; involved in a joint venture with What's New Limited (current landlord) in another project.

**INDEMINIFICATION AND INSURANCE
OF OFFICERS AND DIRECTORS**

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



CHIEF EXECUTIVE'S REVIEW

MJ LOZA

There has been no honeymoon period at all for the new Deer Industry New Zealand structure. No sooner had the restructuring been completed and implemented, the deer industry faced one of the toughest years in its history.

The industry's venison promotional programmes stepped up a notch in response to difficult market conditions. While unable to reverse market conditions caused by unsold product from the previous season, a lack of confidence, increasing production and the strong Kiwi dollar this year, at year-end these programmes are supporting the start of a cautious recovery.

The 2002-03 velvet season was also affected by the exchange rate, but the main feature of the year for velvet has been a comprehensive programme of research, working with regulators and communication with stakeholders about new velvet removal methods.

There has also been an unprecedented level of activity on industry-good issues critical to the interests of the deer industry.

VENISON MARKET EVENTS

After a soft start to the 2002 chilled season, the 2003 chilled season started reasonably positively, just after year-end, on the back of industry participants' return from ANUGA where there was a widespread acceptance that prices should start to make a gradual recovery over the coming year.

PRODUCTION

Annual venison throughput increased 18% from 465,000 animals to 550,000 animals this year. However, slightly lower

average carcass weights (53.6 kg, down from 55.3 kg last year) meant total venison production increased 15% to 29,400 tonnes. The drop in average carcass weight is attributed to generally lighter animals due to tight feed conditions but also the increased proportion of hinds making up total venison production (46% of annual throughput compared with a 10-year average of 41%). As well as an historically high percentage of total venison throughput, this year has seen the largest number of hinds processed for venison. This is expected to have a significant impact on restricting the potential for future herd and production growth.

Velvet production for the year was 529 tonnes frozen – up only 1% from 522 tonnes last year.

EXPORTS

Total deer industry exports came back 21.5% to \$202 million FOB compared to last year (\$258 million). Of this total, venison exports accounted for \$155 million (77% of total export earnings, down from \$203 million last year), velvet \$30 million (15%), co-products \$9 million (5%) and hides and leather \$8 million (4%).

Venison export earnings of \$155 million (FOB) were down 24% with venison export volumes up 9%, representing a 30% decrease in the average NZFOB export price.

Velvet export values dropped 18% to \$30 million and export volumes dropped 17% to 168 tonnes (dried equivalent) representing a slight drop in the average NZFOB export price of 1%.

The strength of the New Zealand dollar had a significant impact on export earnings during this period. From the beginning to the end of the year, the New Zealand dollar strengthened 8% against the Euro, 27% against the US dollar and 19% against the Korean won. The dollar continued to strengthen well after year-end.

FARM-GATE RETURNS

The national average schedule price came down from the high of \$6.68 (60kg AP stag) at the October start of the year to \$4.20 in February. The schedule remained around this level until it reached a low of \$4.07 in July before climbing to a peak of \$5.12 at the end of the year.

The 2002-03 velvet season returned an average of \$98.90 per frozen kg to farmers across all grades, up 3% on the previous year (\$96.10). After a strong start, the year featured dramatic reductions in price early in the season followed by a strong recovery and then a gradual easing of prices before a soft end to the season. This was driven by the strong New Zealand dollar, weakening Korean economy and market concerns regarding expected volumes which did not eventuate.



VELVET REMOVAL RESEARCH AND WELFARE COMPLIANCE BOTH STEPPED UP

RESOLUTION OF AHB TB NPMS FUNDING DEBATE SAVING SEVEN MILLION DOLLARS OVER THE NEXT FIVE YEARS

SUCCESSFUL ARGUMENT AGAINST THE PROPOSED AGRICULTURAL EMISSIONS RESEARCH LEVY

INDUSTRY GROWTH

The results of the 2002 Census of Agricultural Production suggested that total deer numbers in New Zealand as at June 2002 were 1.6 million. This is significantly lower than industry models and previous forecasts had estimated.

The quality of the industry's information in relation to herd size and composition is an issue that will be addressed through a concerted effort, in co-operation with the DFA.

Opportunities to work with other organisations collecting agricultural statistics are also being explored.

However, it seems clear that the herd has not been growing at the rates previously thought. Recent industry modelling predicts future growth in herd size and production at around 4% a year – similar to average growth rates over the last 10 years. Market partners indicate this level of growth is manageable provided it takes place in a steady fashion.

PROMOTIONAL ACTIVITIES

As reported elsewhere in this report in detail, this year has seen the largest ever promotional programme for New Zealand Venison in Europe. This was spearheaded by the Supermarket Tasting Tour throughout Germany alongside joint promotional programmes supported with record levels of promotional investment by exporters and their market partners.

The promotional programme has been built solidly on two important platforms. Firstly, a generic programme focuses on building awareness of New Zealand Venison and positioning New Zealand Venison as a modern, healthy and year-round product. This has added leverage with all companies supporting this same positioning and imagery, giving our efforts collective strength. Secondly, a joint promotional programme provides

funding leverage with levies being matched 3:1 by exporters and their market partners. This means:

- Levy funds support promotions which have commercial value.
- Commercial promotions take on industry-good elements providing a common direction and image.
- Greater funding for promotion despite a lower levy than previously (10 cents compared with 19 cents in 1999).

QUALITY PROGRAMMES

Deer Industry New Zealand continues to have a role in maintaining and updating a 'base-level' programme which almost all companies use as the foundation for their own commercial programmes. However, the industry's needs in the area of QA and Deer Industry New Zealand's role are currently under review. It is expected that this will be finalised mid-way through 2004 as part of the levy re-mandating consultation process.

Work on the development of a Code of Welfare for deer farming has progressed extremely well, with a good level of positive input received from industry stakeholders. Shortly after year-end, the Draft Code was almost ready for submission to the National Animal Welfare Advisory Committee (NAWAC) for public consultation. Work will commence early in the coming year on a Code of Welfare for Velvet Removal.

Compliance with the requirements of the National Velveting Standards Body (NVSBS) velvet removal programme is critical to the industry's ability to continue to remove velvet. This is especially important given the public scrutiny which velvet removal will come under as part of the process of finalising a Code of Welfare for Velvet Removal in 2004-05.

A number of initiatives are being progressed to support the NVSB programme. The Velvet Processors'

Association (VPA), for example, has announced that its members will only accept velvet with NVSB programme tags. Also, the Executive is working closely with MAF Welfare inspectors and MAF Vets at Deer Slaughter Premises (DSPs) to encourage and monitor compliance.

PRODUCER ACTIVITIES

Tony Pearce's first full year as Producer Manager has been a resounding success. Tony has been able to spend time with all Branches and many more than once. There is very strong support from the DFA at national and branch level for the role of Producer Manager. On the flip-side, the direct link with the DFA and its Branch network through the Producer Manager has been of considerable value in ensuring Deer Industry New Zealand maintains a strong and open line of communication with its stakeholders.

OTHER INDUSTRY-GOOD ACTIVITIES

In addition to the core set of promotion, trade access, QA, research and producer activities, Deer Industry New Zealand has also been heavily involved in a range of issues, representing and acting on behalf of the industry's interests. Examples include:

- Negotiating a resolution to the debate regarding funding of the Animal Health Board's Tb NPMS. This has been resolved with \$7 million in savings for the deer industry over the next five years.
- Working with other organisations, and on the crest of significant farmer and public opposition to the proposed Agriculture Emissions Research Levy, to develop a workable alternative.
- Working with MAF, the New Zealand Food Safety Authority and DFA Branches to encourage increased sampling of animals on-farm and at DSPs to support New Zealand's Chronic Wasting Disease-free status.

PATENTS FILED RELATING TO WOUND-HEALING PROPERTIES OF DEER VELVET

SUBMISSIONS ON THE BIOSECURITY STRATEGY, 1080 SUPPLEMENT REGULATIONS AMONGST OTHERS

• Submissions on a wide number of issues including the Biosecurity Strategy, genetically modified organisms, regional and district plans impacting deer farmer interests, 1080, dietary supplement regulations and technical and compliance-cost issues with MAF. Many of these activities are undertaken jointly with other industry organisations and opportunities to step up this type of co-operation are being explored.

FINANCIAL MANAGEMENT

The venison and velvet levy rates both remained at their previous levels – 10c/kg and \$3/kg respectively.

Consolidated income for the year was \$5.6 million, compared with \$4.3 million for the previous financial year. Of this, \$670,817 relates to a timing difference between receipts and payments to the Animal Health Board. Deer Industry New Zealand received a refund of \$362,000 from the Animal Health Board in the current financial year, due to an underspend by the AHB in the 2001/02 financial year. This, together with an over-recovery in the current financial year due to actual production being higher than

budget, resulted in a net AHB levy received of \$670,817. This has been adjusted for in the 2003-04 financial year by setting a lower AHB levy collection rate.

Key Financial Points

- The net result before tax is a surplus of just over \$1 million, of which \$670,817 relates to the AHB timing difference as noted above.
- No tax is payable on this surplus as tax losses are available.
- Consolidated operating expenditure has increased by \$112,000 – made up of: an increase in legal fees, mainly on trademark renewals and registrations, together with a one-off legal compliance review (total increase \$41,000); an increase in Board fees and travel expenses of \$22,000 due to the increase to 10 members of the Board for the full year under the transitional restructuring arrangements; an increase in insurance of \$17,000 due to general market conditions; an increase in printing costs of \$17,000 due to some one-off stationery requirements and increases in other miscellaneous expenses totalling \$15,000.

- Total promotion and research costs represent 60% of total levy income.
- Research payments were made totalling \$723,000 through joint venture arrangements in VARNZ Limited and DEEResearch Limited.

EXECUTIVE

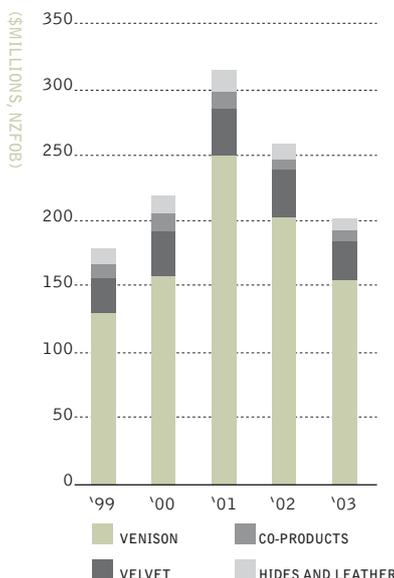
There have been a number of changes to the Executive during the year:

- Alisha Abraham and Janice Attrill joined the Executive as Receptionist and Quality Systems Administrator respectively, replacing Megan Burrell and Sue Lindsay who left during the year to take up other positions.

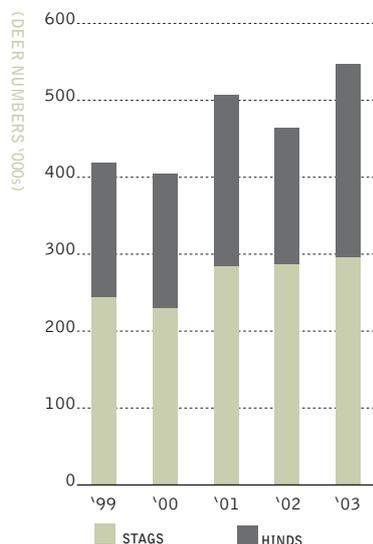
ACHIEVEMENTS OF 2002-03

- Industry restructuring implemented with over \$700,000 in levy savings while improving communications, transparency and service delivery.
- Resolution of the funding debate regarding the AHB Tb NPMS – with \$7 million saved over the next five years.
- Sliced access for velvet to Korea secured.
- Year-round access to the French market for venison progressed.
- Success, in partnership with farmer activism and other agricultural organisations in arguing against the proposed Agricultural Emissions Research Levy.
- More venison promotion in Europe than ever before, alongside exporter investment and with the support and investment of market partners.
- The successful introduction of the Supermarket Tasting Tour throughout Germany.
- Provisional patents filed in relation to wound-healing properties of deer velvet.

TOTAL EXPORT EARNINGS



VENISON PRODUCTION



CAUTION ADVISED
TO ENSURE
POSSIBLE
RECOVERY COMES
TO FRUITION

- As announced at the FGM in May, Chef Graham Brown has moved to a contracting role where he continues to have a significant part to play in venison promotional activities world-wide.
- Rob Gregory was appointed to the Executive in a new role specifically to work on projects relating to velvet removal and the Code of Welfare for Velvet Removal.
- Mark O'Connor (previously Velvet Manager) was appointed as General Manager – Marketing where, in addition to velvet, he now works alongside Venison Marketing Services Manager Mat Moyes on venison promotion and market development.

This has been an extremely difficult and testing year and I would like to thank the entire Executive team for their hard work, dedication and support.

CONCLUSION

While the deer industry has seen one of its most difficult years, caution must be exercised to ensure the possible recovery being signalled at the end of 2003 comes to fruition. While external factors such as the strong New Zealand dollar and the health of European economies will continue to have an effect on markets and returns, factors within the industry's control could have the most significant impact one way or another on the industry in the next 12 months. It is crucial that any improvements in venison prices are market-led and that supply is made available in a managed and orderly way over this period.



MJ LOZA **CEO**

Director of DEEResearch Ltd, DEEResearch Emissions Mitigation Company Ltd, DEEResearch Pastoral Genomics Company Ltd, Group Research Holdings Ltd, VARNZ Ltd.

THINGS TO WATCH OUT FOR IN 2003-04

- Cervena Review and the DeerQA programmes completed and reported.
- Development of updated vision including objectives and strategy for the venison industry.
- 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.
- 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.
- 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.
- Commercialisation of patented velvet intellectual property regarding wound-healing applications.
- Public consultation on the Code of Welfare for Deer Farming
- Work commencing, including industry consultation, on a Code of Welfare for Velvet Removal.



Jeffrey Pearse, Chairman,
Game Industry Research Trust.



Andrew Thomson, Chairman,
VARNZ Ltd – joint venture between the
deer industry and AgResearch focusing
on velvet antler.



Collier Isaacs, Chairman, DEEResearch
Ltd – a joint venture between the deer industry
and AgResearch for non-velvet research.

Consolidated expenditure on research of \$1,073,000 in 2002-03 breaks down as follows: grant to Game Industry Research Trust, \$350,000; Velvet Antler Research Ltd (VARNZ) Ltd, \$420,000; DEEResearch Ltd \$303,000.

RESEARCH

GAME INDUSTRY RESEARCH TRUST

Trustees: Jeffrey Pearse (Chairman), Michael Pattison and Michael Rice.

Pending the resolution of an issue with the Inland Revenue Department regarding the Trust's charitable status for tax purposes, the Research Trust has not funded any new research. However, the Trust's charitable status was confirmed during the year and, following a grant made to the Research Trust at the end of the year, it will be in full operation again in the coming year.

VARNZ

Board: Andrew Thomson (Chairman), MJ Loza and Dr Jimmy Suttie.

Research undertaken by VARNZ in 2002-03 included:

- Trials to support patents relating to the use of a specialised extract to assist wound healing.
- Investigations into the use of a compression technique to provide analgesia for velvet removal.
- Toxicity research in various areas as previously reported, including investigating whether velvet may have any interactions with prescription medicines.

- The development of a standard index to enable the measurement and comparison of the bioactivity of velvet products.
- Use of cutting-edge biotechnology as a screening mechanism to identify whether velvet has the potential to impact a range of physiological functions. This information will enable future research to be targeted in those areas where velvet appears to have an impact.
- Assessing the potential of velvet to improve joint function in large breed dogs.

DEEResearch

Board: Collier Isaacs (Chairman), Noel Beatson (DFA), Graham Barrell (Universities), Bridgit Hawkins (AgResearch), Graeme Keeley (Venison Processors/Exporters), MJ Loza (Deer Industry New Zealand) and Warren Parker (AgResearch).

DEEResearch has published an independent Annual Report in the December 2003 issue of Deer Industry News. Copies and more information are available from the Deer Industry New Zealand office or online at www.DEEResearch.org.nz.

DEEResearch aims to coordinate research, give input to research priorities and directions and illustrate industry commitment to R&D.

Research funded by DEEResearch in 2002-03 included:

- Animal Health issues including Johne's Disease, Tb and Leptospirosis.
- Impact of different pasture species on methane emissions from deer and on deer trace element status.
- Continuing work in the area of new Tb test development and the development of a test to avoid blown-pack spoilage.
- Reviews in the area of processing research and deer industry labour and workforce issues.
- Participation in research consortia with other agricultural organisations: Pastoral Greenhouse Gases Research Consortium and Pastoral Genomics.
- Assisting the transfer of existing information to farmers through the development of a manual to assist with stag selection and a series of workshops about pasture quality, building on previous work funded by Meat NZ.
- Looking at the impact of genotype on reproductive performance.

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



VENISON MARKETING SERVICES MANAGER
MAT MOYES

PRESSURE CONTINUED FOR IMPROVED MARKET ACCESS INTO FRANCE AND NORWAY

A difficult year for New Zealand venison saw the industry in a rebuilding phase. Prices stabilised at lower levels and the confidence of market partners gradually revived. With commitment to industry strategies, innovation and promotional efforts continued to expand across markets.

VENISON

The difficult market conditions resulted in reduced farm-gate prices for New Zealand farmers throughout 2003. However, low market prices drove demand and forecasts for the 2003 chilled venison season are positive as the platforms are in place for a relatively strong season, albeit at lower prices.

Alongside the rebuilding of market confidence sits a gradually strengthening New Zealand dollar, which appreciated 8% against the Euro and 27% against the US dollar, the two main trading currencies.

INDUSTRY STRATEGY

Highlighting New Zealand as the country of origin, while developing the retail sector and extending consumption into spring and summer continued to form the basis of industry strategy. Strong support for this strategy from exporters and their market partners was visible with continued promotional investment from all sectors.

A Supermarket Tasting Tour was launched in Germany, with two staff promoting New Zealand venison to

consumers in a 60-day tour of most major cities including Berlin, Düsseldorf, Frankfurt, Hamburg and Munich.

To support promotional investment, a variety of new materials were developed, including:

- A CD-ROM targeting salespeople, distributors and chefs with information on farming, product characteristics, nutritional benefits, step-by-step fabrication footage and cooking instructions on video.
- Posters for use at food fairs, trade shows and in retail stores.
- French, Dutch and English versions of the promotional brochures.
- New dish imagery for use in promotional literature.

Joint promotion remained the central promotional vehicle, leveraging investment from exporters and their market partners and maximising the promotional spend and spread of activity. Deer Industry New Zealand contributed \$681,235 in 2002-2003, which leveraged a total promotional investment of \$2.7 million – roughly

\$3 from exporters and their market partners for every dollar of levy funding.

MARKET ACCESS

Considerable pressure was maintained to improve market access conditions for New Zealand venison into France and Norway.

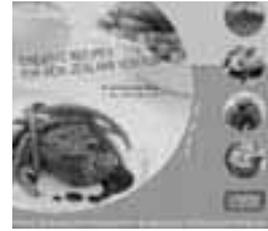
- In October 2002, the Chairman and Executive met with a number of French officials to seek year-round access to the French market. Throughout 2003, industry – supported by the Ministry of Foreign Affairs and Trade – lobbied French officials and continues to receive positive signals for a major breakthrough.
- Shortly after year-end, the Chairman and Executive met with Norwegian deer farming representatives, agricultural economists and the Chamber of Commerce to communicate the Board's intentions to gain improved market access to Norway and to explore opportunities for cooperation in lobbying and promotional initiatives.



FOCUS ON BROADENING CONSUMPTION INTO SPRING AND SUMMER



RETAIL PROMOTION CAMPAIGNS CENTRAL TO ACTIVITY



NEW PROMOTIONAL LITERATURE AND MATERIALS SUPPORTED RETAIL AND HRI ACTIVITY

HIGHLIGHTS OF JOINT PROMOTION ACTIVITY

- Three new mobile kitchens were built for use at European trade fairs, supermarkets and cash-and-carry networks.
- Retail promotions for consumer-ready products were conducted at over 500 stores across Switzerland, supported by a nationwide PR campaign.
- Cervena development initiatives in the US included engaging a US Promotional Manager to exploit promotional opportunities and, also, consumer tasting promotions at selected high-end supermarkets and the Aspen Wine & Food Classic.
- German cash-and-carry promotions were supported by weekly promotional brochures, in-house trade fairs, chef functions and demonstrations.
- Food trade fair participation in Germany (AUNGA), France (SIAL), Benelux (Horeca Expo), the UK, the Middle East, China and the US.

- Sponsorship of a culinary foundation in the US and a UK-NZ chef exchange programme.
- Australian chefs were targeted through a promotional programme involving chef functions, events and demonstrations in two Australian cities.
- Breaking into new markets through promotions at Chinese trade fairs and new language brochures targeting selected affluent Eastern European markets.

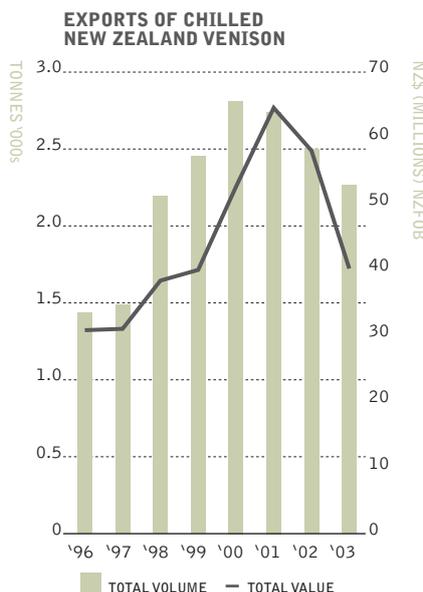


PROMOTION IN NEW ZEALAND

- A retail tasting programme, including sales staff and merchandiser training and the development of retail promotional material and literature.
- New consumer-ready retail products were introduced into New Zealand supermarkets.
- The polytechnic education programme continued with presentations to student chefs at seven schools.
- Cervena tasting sessions were held at a premium Wellington supermarket patronised by both chefs and consumers, while over 41,000 visitors to 'The Foodshow' in Auckland and Wellington also had the chance to sample and buy product.
- Competing chefs created new Cervena dishes in a Cervena-sponsored category at the New Zealand Culinary Fare and during the 2003 Salon Culinaire, a Christchurch culinary competition. The product also took centre-stage at an exclusive dinner as part of the America's Cup programme.

CHEF AND TRADE EDUCATION

This remained an important part of the promotional mix, with continued investment in specialist resources contracted for promotional and educational work in New Zealand and overseas. Over 20 weeks were spent overseas by Graham Brown and Geof Christie, covering nine countries and with promotional work in all four seasons.





GENERAL MANAGER — MARKETING
MARK O'CONNOR

MORE DIFFICULT YEAR
FOR EXPORTS WITH
EXCHANGE RATES AND
SARS AFFECTING
MARKETS

The New Zealand velvet industry produced 529 tonnes of frozen velvet in the 2002-03 velvet season, up one percent on the previous season's 522 frozen tonnes. The weighted average pool price per kg was \$99, up slightly on the previous season's \$96.

VELVET

This result was pleasing for producers and reflected relatively stable production and the generally increasing quality of New Zealand velvet.

New Zealand exported 168 tonnes (dried equivalent) of velvet to year ended September 2003 valued at \$30 million. This was a decrease compared to September 2002 in which 203 tonnes of velvet were exported valued at \$37 million (see Velvet Export graph right).

Several factors explain the lower value of New Zealand velvet exports:

- The weaker value of the Korean Won (KRW). Averaged over the year ended September 2003, the KRW was 661 to the New Zealand dollar, compared to 563 for the 2001-2002 period. This means that, on average, the KRW was 17% weaker in 2003 compared to 2002 and, consequently, it was 17% more expensive for importers to purchase New Zealand velvet.

- The SARS epidemic stopped business activity in the early part of 2003 in Hong Kong, which slowed buyer demand for velvet.
- The slower growth in the Korean economy dampened consumer confidence and interest in expensive items such as deer velvet.

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

VELVET REMOVAL RESEARCH

New Zealand food industry regulators asked the deer industry to reconsider the remedies currently used in velvet removal.

Deer Industry New Zealand identified two particularly promising remedies from a range of alternatives and also took the opportunity to examine current remedies, to gain an understanding of their impact.

As trials on the compression technique for analgesia for velvet removal drew to a conclusion, the case was put to MAF's

KOREAN MARKET ACCESS 2002-2003

Sliced Velvet – Deer Industry New Zealand received positive confirmation that Korean authorities would be prepared to accept exports of sliced New Zealand deer velvet to Korea. Other hurdles need to be overcome, including inspections by Korean officials of New Zealand velvet premises and a staged approach to allowing full access, but indications are more positive. Access will result in opportunities for a broader range of marketers both in New Zealand and Korea.

Special Excise Tax (SET) – Deer Industry New Zealand stepped up efforts to have the SET on deer velvet removed, which will result in the lowering of border charges from 43% of the CIF value to 32.5%. A top Korean law firm has been retained, in a success-fee-based arrangement, to work on this. By year-end, the lobbying effort had certainly gained traction and brought the issue to the attention of relevant Korean officials.



2002 SEASON RETURNS FOR PRODUCERS WERE UP SLIGHTLY ON THE PREVIOUS SEASON



SLICED ACCESS FOR VELVET TO KOREA SECURED



PROGRESS MADE FOR ABOLITION OF SPECIAL EXCISE TAX IN KOREA

National Animal Welfare Advisory Committee (NAWAC) for approval of the technique. NAWAC considered the proposal and provided detailed feedback, but advised they were unable to approve the technique. However, the low-pressure compression technique using NaturO Rings to remove spiker velvet remains approved, with more work identified as required in the future.

ANIMAL WELFARE AND COMPLIANCE RELATING TO VELVET REMOVAL

Efforts to address any issues of non-compliance relating to the velvet removal programme, particularly with Spikers, were stepped up during the year. Industry, through the National Velvetting Standards Body (NVSB), continued to bring these issues to the attention of deer farmers through industry publications, shed meetings and field days.

Deer Industry New Zealand conducted a velvet road show at 26 venues around New Zealand. Part of this concentrated specifically on non-compliance issues to do with velvet removal.

Non-compliance puts the NVSB programme at risk and so farmers run the risk of losing the ability to velvet their own deer. Vigilance must be maintained by the industry against:

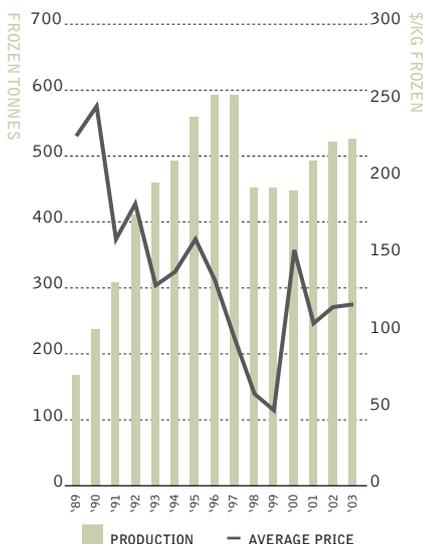
- Illegal velvetters.
- Illegal use of drugs for velvet removal.
- Spiker velvet removal without the use of the recommended procedures, and
- Animals being transported in velvet, or
- Animals with broken velvet arriving at deer slaughter plants.

As well as actions taken during the period, further initiatives will be introduced in 2003-04 as part of continuous improvement of the programme.

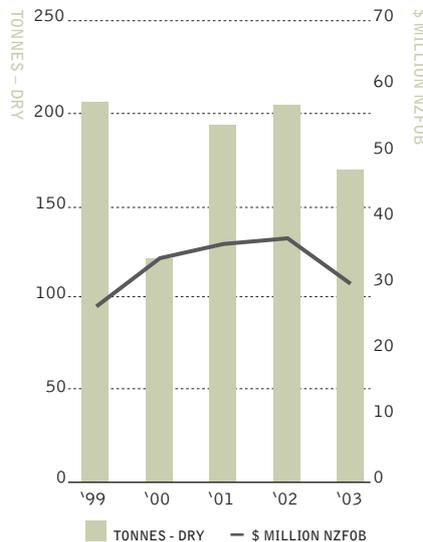
Since the road show, there has been a considerable increase in the number of farmers applying to become part of the NVSB programme with an unprecedented 160 new contracts being signed by August 2003.



VELVET PRODUCTION



VELVET EXPORTS



REPORT OF THE AUDIT OFFICE

To The Readers Of The Financial Statements Of Deer Industry New Zealand And Group For The Year Ended 30 September 2003

We have audited the financial statements on pages 15 to 23. The financial statements provide information about the past financial performance of Deer Industry New Zealand and Group and their financial position as at 30 September 2003. This information is stated in accordance with the accounting policies set out on pages 18 and 19.

Responsibilities of the Board of Directors

The Primary Products Marketing Act 1953 requires the Board of Directors to prepare financial statements that show the financial position of Deer Industry New Zealand and Group as at 30 September 2003 and the results of their operations and cash flows for the year ended on that date.

Auditors' Responsibilities

Section 15 of the Public Audit Act 2001 and Section 12 of the Primary Products Marketing Act 1953 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Michael Wilkes, of Deloitte Touche Tohmatsu, to undertake the audit.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to Deer Industry New Zealand and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Deloitte Touche Tohmatsu has provided tax support services to Deer Industry New Zealand during the financial year and performed a levy audit of a processor. Apart from this, and other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in Deer Industry New Zealand or any of its subsidiaries.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of Deer Industry New Zealand and Group on pages 15 to 23:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the financial position of Deer Industry New Zealand and Group as at 30 September 2003; and
 - the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 27 November 2003 and our unqualified opinion is expressed as at that date.



Deloitte Touche Tohmatsu

Michael Wilkes
Deloitte Touche Tohmatsu
Chartered Accountants
On behalf of the Auditor-General
Wellington, New Zealand

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 2003 included on Deer Industry New Zealand's website. Deer Industry New Zealand is responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's 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 27 November 2003 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.

FINANCIALS

DEER INDUSTRY NEW ZEALAND

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 September 2003.

Notes	Consolidated 2003 \$	Consolidated 2002 \$	Parent 2003 \$	Parent 2002 \$
INCOME				
Levy Income Venison	3,051,491	2,484,225	3,051,491	2,484,225
Levy Income Velvet	1,588,147	1,546,035	1,588,147	1,546,035
Interest Received	182,969	132,440	160,459	106,647
Other Income	94,779	65,546	94,779	61,154
Net Animal Health Board Levy Received	2 670,817	40,832	670,817	40,832
Foreign Currency Gain	9,796	9,708	9,878	9,771
Total Income	5,597,999	4,278,786	5,575,571	4,248,664
EXPENDITURE				
OPERATING EXPENDITURE				
Audit Fees	3 20,895	20,000	20,895	20,000
Depreciation	5 61,009	63,531	61,009	60,955
Board and Directors' Fees and Expenses	9 263,042	241,255	247,252	226,855
Insurance	202,806	185,983	202,806	185,983
Other Fees Paid to Auditors	19,613	22,996	18,863	22,996
Other Operating Expenses	391,987	316,366	331,434	277,343
Premises Rental and Costs	40,150	37,574	40,150	37,574
Total Operating Expenditure	999,502	887,705	922,409	831,706
COMMUNICATIONS	309,185	345,380	309,185	345,380
QUALITY ASSURANCE	232,371	169,647	232,371	169,647
PRODUCER MANAGEMENT	140,889	25,491	140,889	25,491
VENISON PROMOTION				
Generic Promotion	660,265	765,576	660,265	757,693
Joint Promotion	681,235	645,593	681,235	645,593
Total Venison Promotion	1,341,500	1,411,169	1,341,500	1,403,286
VELVET				
Korea Promotion	102,518	102,580	102,518	102,580
USA Promotion	–	151,947	–	151,947
All Other Markets Promotion	18,245	28,909	18,245	28,909
Velvet Removal	272,571	172,076	272,571	172,076
Product Information and Issues Management	290,729	–	290,729	–
Other Promotion Expenditure	160,468	186,757	160,468	186,757
Total Velvet Expenditure	844,531	642,269	844,531	642,269
OTHER				
Grant To Cervena Trust Limited	–	–	51,289	50,490
Provision for Amount Receivable from Cervena Trust Ltd	–	–	6,730	27,946
Provision for Writedown of Investment in VARNZ Limited	–	59,695	–	–
Research	722,606	733,059	1,072,606	678,207
Total Other Expenditure	722,606	792,754	1,130,625	756,643
Total Expenditure	4,590,584	4,274,415	4,921,510	4,174,422
Net Surplus Before Taxation	1,007,415	4,371	654,061	74,242
Taxation Credit	4 –	(4,244)	–	–
Net Surplus After Taxation	1,007,415	8,615	654,061	74,242

DEER INDUSTRY NEW ZEALAND

STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS for the year ended 30 September 2003.

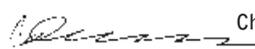
Notes	Consolidated 2003 \$	Consolidated 2002 \$	Parent 2003 \$	Parent 2002 \$
Opening Accumulated Funds	1,064,195	1,055,580	630,212	555,970
Net Group Surplus	1,007,415	8,615	654,061	74,242
Total Recognised Gains and Losses	1,007,415	8,615	654,061	74,242
Closing Accumulated Funds	2,071,610	1,064,195	1,284,273	630,212
Closing Accumulated Funds relate to:				
Deer Industry New Zealand	1,656,431	973,423		
Cervena Council Limited	–	25,965		
Game Industry Research Trust	10 415,179	64,807		
	2,071,610	1,064,195		

STATEMENT OF FINANCIAL POSITION as at 30 September 2003

Notes	Consolidated 2003 \$	Consolidated 2002 \$	Parent 2003 \$	Parent 2002 \$
Accumulated Funds	10 2,071,610	1,064,195	1,284,273	630,212
Represented by:				
Current Assets				
Short Term Bank Deposits	3,226,326	2,340,652	2,406,142	1,924,252
Accounts Receivable	778,960	764,932	777,476	762,843
Prepayments	13,935	38,288	13,935	38,288
Intercompany Account Cervena Trust	8,889	8,889	–	–
Intercompany Account Cervena Company Ltd	–	–	1,900	(100)
Tax Refund Due	–	4,105	–	–
Total Current Assets	4,028,110	3,156,866	3,199,453	2,725,283
Less Current Liabilities				
Accounts Payable	1,023,265	605,805	862,328	496,030
Accruals	627,382	898,432	627,382	898,432
Employee Entitlements	11 115,295	67,972	115,295	67,972
Intercompany Account Group Research Holdings Ltd	–	–	439,108	731,484
Intercompany Account Zeal Quality Assurance Ltd	–	–	1,000	1,000
Intercompany Account VARNZ Ltd	319,191	621,408	–	–
Total Current Liabilities	2,085,133	2,193,617	2,045,113	2,194,918
Non Current Assets				
Fixed Assets	5 128,633	100,946	128,633	98,547
Investment in Subsidiaries	–	–	1,300	1,300
Total Non Current Assets	128,633	100,946	129,933	99,847
Net Assets	2,071,610	1,064,195	1,284,273	630,212



Chairman of the Board
27 November 2003



Chairman of the Audit Committee
27 November 2003

DEER INDUSTRY NEW ZEALAND

STATEMENT OF CASHFLOWS for the year ended 30 September 2003.

Notes	Consolidated 2003 \$	Consolidated 2002 \$	Parent 2003 \$	Parent 2002 \$
Cashflows from Operating Activities				
Cash was provided from:				
Venison and Velvet Levies	5,311,562	3,705,399	5,310,836	3,757,402
Interest Received	167,834	134,092	145,444	104,778
Other Operating Income	94,779	65,546	94,779	–
	5,574,175	3,905,037	5,551,059	3,862,180
Cash was applied to :				
Payments to Suppliers and Employees	4,610,424	3,528,886	4,986,669	3,190,109
Resident Withholding Tax (Received)/Paid	(4,105)	3,376	–	–
	4,606,319	3,532,262	4,986,669	3,190,109
Net Cashflows from Operating Activities	967,856	372,775	564,390	672,071
Cashflows from Investing Activities				
Cash was applied to :				
Purchase of Fixed Assets	91,978	58,646	92,378	58,646
Net Cashflows from Investing Activities	(91,978)	(58,646)	(92,378)	(58,646)
Net Increase in Cash Held	875,878	314,129	472,012	613,425
Opening Cash Balance	2,340,652	2,016,815	1,924,252	1,301,056
Effect of exchange rate change on foreign currency balances	9,796	9,708	9,878	9,771
Closing Cash Balance	3,226,326	2,340,652	2,406,142	1,924,252
Reconciliation of Net Surplus After Tax With Operating Activities				
Reported Surplus	1,007,415	8,615	654,061	74,242
Add:				
Non Cash Items	54,495	113,517	52,416	51,182
Movement in working capital	(94,054)	250,643	(142,087)	546,647
Net Cashflows from Operating Activities	967,856	372,775	564,390	672,071

NOTES

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 September 2003.

Deer Industry New Zealand is the operating name of the Game Industry Board.

Deer Industry New Zealand is a marketing authority established under the Primary Products Marketing Act 1953 and the Game Industry Board Regulations 1985.

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

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 2003:

- **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 2003.

- **Zeal Quality Assurance of New Zealand Limited**

A wholly owned subsidiary which is responsible for the Zeal quality standards. This company has not operated for the year ended 30 September 2003.

- **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.

- **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 current 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 had a direct licensing arrangement from Cervena Trust Limited.

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 September 2003.

The following entities have not been consolidated for the period ended 30 September 2003:

- **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 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%), 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 expenditure. An Annual Report for DEEResearch Limited is available on request from Deer Industry New Zealand. DEEResearch Limited has a 30 June balance date.

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 – 10 Years; Office Equipment – 5 Years; Computer Equipment – 3 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.

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 September 2003.

2. 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.

	Parent & Consolidated 2003	Parent & Consolidated 2002
	\$	\$
AHB levies collected	3,347,527	2,093,705
AHB levies paid	(2,676,710)	(2,052,873)
Net AHB Levy Received	670,817	40,832

Deer Industry New Zealand received a refund of \$362,291 from the AHB in the current financial year due to an underspend by the AHB from the 2001/02 financial year. This, together with the over recovery in the current financial year due to actual production being higher than budget, has resulted in a net AHB levy received of \$670,817, which has been adjusted for in the 2003/04 financial year by the setting of a lower levy collection rate.

3. 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: \$4,895

4. TAXATION

	Consolidated 2003	Consolidated 2002	Parent 2003	Parent 2002
	\$	\$	\$	\$
Net Surplus Before Tax	1,007,415	4,371	654,061	74,242
Permanent Differences	(350,164)	119,241	22,022	31,600
	657,251	123,612	676,083	105,842
Tax @ 33%	216,893	40,792	223,107	34,928
Reversal of Deferred Tax Previously Provided	–	(2,597)	–	–
Deferred Tax Asset not Previously Recognised	(216,893)	(42,439)	(223,107)	(34,928)
Income Tax Charge as per Statement of Financial Performance	–	(4,244)	–	–
Made up as follow:				
Prior Period Adjustments	–	(1,647)	–	–
Reversal of Deferred Tax	–	(2,597)	–	–
	–	(4,244)	–	–

	Consolidated 2003	Consolidated 2002	Parent 2003	Parent 2002
	\$	\$	\$	\$
Opening Balance	–	(2,597)	–	–
Movement	–	2,597	–	–
Closing Balance	–	–	–	–

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 September 2003.

Imputation Credits	Consolidated 2003 \$	Consolidated 2002 \$	Parent 2003 \$	Parent 2002 \$
Opening Balance	1,147,035	1,146,089	500,749	500,749
Resident Withholding Tax Refunded	(1,947)	(1,291)	–	–
Resident Withholding Tax Paid	65	2,237	–	–
Closing Balance	1,145,153	1,147,035	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 \$826,651 (2002: \$1,491,504) 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.

5. FIXED ASSETS

	Cost \$	Accumulated Depreciation \$	Depreciation 2003 \$	Depreciation 2002 \$	NBV 2003 \$	NBV 2002 \$
Deer Industry New Zealand						
Furniture & Fittings	195,628	149,350	13,576	17,498	46,279	27,184
Computer Equipment	313,854	235,046	46,263	41,988	78,807	66,942
Office Equipment	33,994	30,447	1,170	1,469	3,547	4,421
	543,476	414,843	61,009	60,955	128,633	98,547
Cervena Council Limited						
Website	–	–	–	2,576	–	2,399
Total	543,476	414,843	61,009	63,531	128,633	100,946

6. 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.

7. CONTINGENCIES

The Group has no contingent assets or liabilities as at 30 September 2003.

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.

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 September 2003.

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 10% were denominated in foreign currency.

At balance date, foreign currency deposits totalled \$47,544 (2002: \$21,566). 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.

The 2003 year total for Deer Industry New Zealand is \$247,252 (2002: \$226,855). This comprises \$197,500 in Board fees (2002: \$171,250), \$4,000 in additional domestic and overseas representation fees for Mr Clive Jermy (2002: \$6,375); \$2,000 each in additional domestic representation fees for Mr Michael Rice (2002: \$800); Mr Andrew Thomson and Mr Michael Pattison, and \$39,752 in travel and accommodation expenses (2002: \$48,430).

Cervena Company Limited

Mr Michael Rice received fees of \$2,000 in his capacity as Chairman. (2002: \$2,000). There were no travel expenses.

Cervena Trust Limited

Directors' fees totalled \$12,000 for the 2003 year. Trustees Mr John Upton and Mr James Guild received fees of \$4,000 each; Mr John Parker received fees of \$2,000 for the six month period until his resignation on 1 April 2003, when Mr David Wright was appointed as Chairman and received fees of \$2,000 for the period from appointment until 30 September 2003. Travel and accommodation expenses were \$1,790. (2002: fees of \$12,000 and travel and accommodation expenses of \$400).

10. ACCUMULATED FUNDS

The accumulated funds of the Group are \$2,071,610 (2002: \$1,064,195), of which \$415,179 (2002: \$64,807) 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. 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 2003	For the year ended 30 September 2002
Less than 100,000	11	8
160,000 – 169,999	–	1
190,000 – 199,999	1	–

There were nine members of staff employed as at 30 September 2003 (2002: nine). A list of staff employed as at 30 September 2003 is detailed within the annual report.

Some members of staff have a portion of their salary which is based on their performance and assessed and paid at the end of the salary year. During the current financial year, the timing of the payment of the "at-risk" portion of salaries was changed from April to September to align with the financial year. This has resulted in a one-off timing difference as payments in the current financial year represent the equivalent of 18 months of such payments, thereby increasing the current year's remuneration shown within the financial statements. From the 2003/04 financial year onwards, such payments will be made annually in September.

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 September 2003.

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 and in the current year also includes the additional payments of "at-risk" portion of salaries as noted above.

12. VELVET QUALITY MARK

During the 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.

13. 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 grants to associated entities: Velvet Antler Research New Zealand Limited (2003: \$377,153; 2002: \$531,485) and DEEResearch Limited (2003: \$269,749; 2002: \$146,722). 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 \$350,000 (2002: nil).

An operational grant of \$51,289 (2002: \$50,490) was provided from Deer Industry New Zealand to Cervena Trust Limited. The remainder of the balance due from Cervena Trust Limited (2003: \$6,730; 2002: \$27,946) has been provided for as Cervena Trust Limited has insufficient funds to repay the debt.

14. COMMITMENTS

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

	Parent & Consolidated 2003 \$	Parent & Consolidated 2002 \$
Not later than 1 year	38,012	16,354
Later than 1 year and not later than 2 years	38,012	nil
Later than 2 years	19,006	nil

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

	2003 \$	2002 \$
Not later than 1 year	231,000	183,500
Later than 1 year and not later than 2 years	205,000	231,000
Later than 2 years	93,750	298,750

15. 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, which are Pastoral Greenhouse Gas Research Consortium (2.34% holding) and Pastoral Genomics Consortium (1.1% holding) respectively. DEEResearch Limited has unconditional guarantees to the other partners in the unincorporated joint ventures which:

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

DEER INDUSTRY NEW ZEALAND EXECUTIVE as at 30 September 2003.

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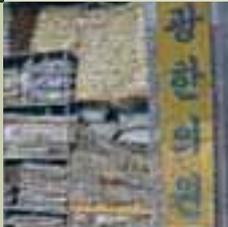
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