

REPORT

DEER INDUSTRY NEW ZEALAND ANNUAL REPORT | 2004-2005

THE GLOBAL VIEW INCREASING DEMANDS ON OUR INDUSTRY

**POSITIONING VENISON:
NOW & FOR THE FUTURE**

**TOWARDS A
SUSTAINABLE
VELVET INDUSTRY**

**RESEARCH:
SAFEGUARDING
AND GROWTH**



Above: Modern, light venison dishes like Spicy Grilled Cervena® are capturing the essence of New Zealand venison for overseas consumers.

Front Cover: Rush hour traffic. Frankfurt, Germany.

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CLEAR OBJECTIVE: SUSTAINABLE, PROFITABLE GROWTH

Your Board remains resolutely confident in the future of venison, velvet and co-products.

We acknowledge the short-term pressures and challenges facing the industry and are working on those challenges, but will not sacrifice the future. Our long term strategies and goals must not be compromised.

At the time I decided to accept the position of deputy chairman, and subsequently the chairman's position of Deer Industry New Zealand (DINZ), it was clear that difficult industry conditions were extending longer than one would have hoped.

INVESTMENT CRUCIAL

As a producer, I already appreciate the committed production, processing and marketing capacity we have here in New Zealand. Since travelling to the markets this year, I have also gained considerable confidence in the dedication of importers and distributors to our products, particularly venison. To be viable, any industry requires the investment of capital along each point in the supply chain to incubate growth and foster commitment to the product. I was heartened to see first hand that the supply chain in-market is investing in New Zealand venison by

purchasing new packaging and presentation systems, developing new products and investing in promotion.

Here in New Zealand, high production volumes indicate a net divestment from the industry. While some decrease in supply growth was certainly warranted, your Board is concerned that a large decrease in the base of productive animals could go too far, resulting in lower production capacity and markets being shorted at a critical stage in their development.

To plan for a possibly significant decrease in production, DINZ is working to a five year business plan, designed to ensure that there is sufficient working capital for a continuation of existing activities. It attempts to limit levy rate changes for those producers who have maintained their investment in the industry in spite of the difficult conditions.

VENISON DEVELOPMENT

The Board has long advocated that, in order to grow, the industry must reduce reliance on Germany as the major consuming nation of venison and achieve consumption outside the traditional game season. Similar



Above: John Scurr, Chairman.

principles of reducing reliance on a single key market apply to velvet. Despite the very trying conditions there have been have significant achievements (see Venison Report). In particular, I am pleased that venison is reportedly flowing through well to final consumption. There is an increasing awareness of farm-raised New Zealand venison in the retail sector. This augmentation of traditional game business helps to communicate the New Zealand country-of-origin to consumers and is a key part of the venison strategy.

I am particularly pleased that Cervena licensees have agreed a set of goals which have been signed off by Cervena Trust Limited. Clearly there is significant opportunity for growth in the US market and licensee commitment to using Cervena® as the vehicle is encouraging for the industry.

INDUSTRY CO-OPERATION

I believe that the deer industry must build on its inherent strengths through a rational mix of collective, co-ordinated and commercial activities. I am committed to maintaining an open, transparent culture at DINZ and working for a profitable and sustainable future for all parts of the industry.

DINZ BOARD & EXECUTIVE

On the retirement of Clive Jermy in June, Graham Carr joined the Board. Graham has a significant stake in the industry, commercial acumen and brings a passion for producer interests to the table. Stewart Barnett and John MacDonald retired by rotation and were both returned to the Board. Stuart Natrass was elected deputy chairman.

The industry has a Board that is functioning well. It has an invaluable mix of expertise, experience and professionalism. I thank the directors for their contributions and enthusiasm over the past year, particularly Clive for his untiring dedication to the deer industry.

I am grateful also to Mark and his team who are absolutely committed to being a part of the industry's success.

DIRECTION CLEAR

I am excited by the industry's future and proud to be working for the industry. Our objective is sustainable, profitable growth for the industry. The strategies are in place to achieve this. As an industry working together, we will succeed.

John Scurr Chairman

The South Island deer farmer and former DFA Chairman has been a producer-appointed director of the DINZ Board since 2002.

BOARD OF DIRECTORS

APPOINTED BY THE NEW ZEALAND DEER FARMERS' ASSOCIATION:



JOHN SCURR CHAIRMAN Wanaka, Otago

Shareholder of Veleco Ltd and PPCS Ltd. Farms at Wanaka.



GRAHAM CARR Geraldine, South Canterbury

Director of Graham Carr (NZ) Ltd; Victory Lime 2000 Ltd. Shareholder of Veleco Ltd; PPCS Ltd. Farms near Geraldine.



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.

ELECTED BY VENISON MARKETERS AND VENISON PROCESSORS:



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, Meat Industry Association of NZ, New Zealand Lamb Co Ltd, PPCS USA Inc, PPCS (UK) Ltd, B Brooks (Norwich) Ltd, Richmond Ltd.



ANDREW DUNCAN¹ Auckland

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



STUART NATRASS¹ DEPUTY CHAIRMAN 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 of PPCS.

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



JOHN MACDONALD Christchurch, Canterbury

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

1. Appointed under transitional provisions relating to the first directors of DINZ, Schedule 2, Deer Industry New Zealand Regulations 2004.

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.

PLATFORM FOR GROWTH INTACT

Another very tough year for the deer industry in 2004-05, but a sound platform for growth remains intact.

The New Zealand deer industry's resolve and self-belief were tested again in 2004-05. For some, it meant a reduction in exposure to the industry evidenced by an increase in production of 12 percent in the year ended 30 September 2005, compared to the previous year.



Above: Mark O'Connor, Chief Executive Officer.

Others understand that the New Zealand deer industry remains the most efficient and largest producer of quality deer products in the world and that those products do have a bright future if the industry makes the right decisions. However, a combination of factors continues to result in unsustainably low returns for producers.

The issues are clear. An increase in supply of 70 percent in three years, which is not driven by market demand for more venison, means it is difficult for producers' returns to improve to where they need to be for sustainability and commitment to farming deer.

YEAR ONE OF THE FIVE YEAR STRATEGIES

DINZ is focused on executing the 2005-10 industry agreed plans alongside industry to position venison, velvet and co-products profitably for the future and the DINZ Executive is determined to see them deliver unequivocally. Some highlights from the first year included:

- Export volume increases beyond target for all six target markets for venison;
- New retail product development and positioning in key markets, including New Zealand;
- Execution of second *Sommerkampagne* in Germany and first generic promotion in France;
- Launch of campaign in Taiwan for frozen velvet access;

- Progress in Korea on sliced velvet and initiation of development of the 'healthy food' market; and
- Reinvigoration of athlete endorsement programme for velvet.

There is a huge amount of further work to be done, but the opportunities are real and achievable.

Joint promotion remains a key tool to guarantee consistency of message, ensure promotional investment by exporters and distributors, and to make certain that scarce funds are allocated to the most commercially effective projects. Sixty-seven venison joint promotional projects took place during the year.

DIVERSIFICATION

Marketers effectively managed diversification initiatives to lower the risk of swamping markets. The key German market saw only a five percent increase in exports during the period. Other European markets accounted for additional volumes and Australasian markets took significant volumes of manufacturing items. If this management can continue, these key markets will remain intact when production volumes reduce.

WHAT TO LOOK FOR IN 2005-06

- Review of progress on year two of the velvet and venison strategies.
- Cervena promotions in the USA as Cervena licensees and DINZ reinvigorate the programme.
- Targeted promotions in German supermarkets to align promotion with where New Zealand venison is available, which will link promotion to product.
- Public relations & joint promotion to promote venison in New Zealand as DINZ works with companies to build on existing retail sales and new product development.
- Progress on access issues including, 12 month sales in Belgium, China, and Taiwan.
- Implementation of the industry Productivity Strategy including clear, measurable goals, effective technology transfer of existing information and new research for further information required.
- Final development and launch of DEER Select.
- New sales of new velvet products in Asia.
- Further progress on a wound healing product from velvet. Discussions with potential commercialisation partners initiated.
- Higher profile of New Zealand velvet in the sports health market.
- Approval of the Code of Welfare for deer farming.
- Industry Herd Model; further development and communication of it to the New Zealand industry.

VENISON SUPPLY MANAGEMENT

Marketers also effectively managed supply with an increase in export volumes (20 percent) being greater than the increase in production (12 percent). The industry effectively sold approximately 120,000 more animals than the previous period without impacting negatively on key markets. The platform for growth remains intact for a recovery once production drops. The industry would be best served by slow predictable increases in price.

VELVET

Demand strategies for consumption growth are being implemented jointly with industry, but velvet supply considerations remain a key industry issue. It is not so much about controlling production, but considering how the industry sells that production to best effect. DINZ will continue to encourage appropriate industry cooperation.

INDUSTRY PRODUCTIVITY

The elements for improved deer industry productivity were put into place during the period. The DEER Select cross herd breeding values programme is now available for breeders and industry. This will be a driver for genetic improvement in red deer. An industry strategy for improved technology transfer and research has been drafted for implementation. Most DEER research programmes now have a productivity improvement aspect as well.

STAFF & ADMINISTRATION

There were several key appointments to the DINZ Executive during the period. Daimien Reynolds was appointed General Manager Marketing with responsibility for velvet in February. He quickly grasped the role and is contributing strongly.

Innes Moffat replaced Mat Moyes as Venison Marketing Services Manager in June. While sad to farewell Mat, Innes brings a good level of in-market experience to DINZ following several years in Europe with Meat & Wool New Zealand.

I sincerely thank the DINZ Executive for their commitment to the organisation and industry, and for the support they have shown to me in my first year as CEO.

The first full year of out-sourced Finance, Administration, Reception and IT services to Meat & Wool New Zealand is complete. Services have been provided to a high standard resulting in increased efficiency at a lower cost.

FOCUS

Any industry which has battled four years of uneconomic returns necessarily questions the industry's business structures, strategies and the underpinning factors which have grown the industry in the past. As an industry, we have restructured and developed inclusive strategies to grow the business. Underpinning factors for growth remain; industry participants are the most efficient producers and processors of venison and velvet in the world and yet can still make significant advances, we have opportunity to achieve 'vanguard status' for both products and there are good opportunities to augment traditional business while continuing to reduce the industry cost burdens where possible.

DINZ's focus will remain on assisting industry achievement of profitable, sustainable growth for the industry. I look forward to success and the better days ahead which will result.

Mark O'Connor Chief Executive Officer

Wellingtonian Mark O'Connor joined the DINZ Executive in 2000 as Velvet Manager. He became General Manager Marketing in 2003 and CEO in 2005.

WHAT WE SAID WE'D DO IN 2004-05 (from Annual Report 2003-04)	WHAT WE DID
Venison and Velvet Strategies: progress reported against measurable goals.	<ul style="list-style-type: none"> • Strategies implemented. Progress reported and reviewed in industry publications. • Industry suggested minor amendments which were made to the strategy. General view is that the objectives and strategies remain valid and achievable.
Continuing focus of summer venison promotion at German retail.	<ul style="list-style-type: none"> • Focus on summer venison promotion continued with <i>Sommerkampagne 2</i>. Taken together, the two <i>Sommerkampagnes</i> undertook advertising reaching 10 million consumers, generated 25 newspaper and magazine articles reaching 2.5 million readers with EAV of \$250,000, competition entries of 150,000 (each receiving three newsletters), provision of 10,000 samples to shoppers with 90% positive on taste and 50% indicating they would consider using venison in summer. • Future promotion will be sharpened to link venison availability to promotion to efficiently align spend to sales and awareness.
New venison promotional campaigns in France and the UK.	<ul style="list-style-type: none"> • Completed both campaigns. • French campaign undertook public relations activity (36 articles/mentions with estimated total circulation of 2.5 million and EAV of \$150,000), consumer advertising, in-store promotion at Galleries Lafayette and development of point-of-sales materials. French activity will continue to be supported by joint promotional expenditure. Industry generic activity will be Germany and US in 2005-06. • UK promotions were small scale. Partnership will continue to mutual benefit of both parties in 2005/06.
Penultimate year of wound healing research completed – on target to have a commercially viable package to discuss with commercialisation partners in 2006.	<ul style="list-style-type: none"> • Further wound healing research undertaken and project remains on track to initiate discussions with potential partners in 2006. • Challenges were struck in 2004-05 with achieving batch consistency, effective extraction process and inconsistency of pre-clinical testing methodology. Practical obstacles have been overcome.
Political and media campaign lobbying for improved velvet access in Taiwan.	<ul style="list-style-type: none"> • Campaign launched in May 2005 to 100 participants. Launch generated EAV of \$275,000. Combined effort between DINZ, exporters and Taiwanese importers. • Launch and activity that followed resulted in the Taiwanese Government's Council of Agriculture agreement that the current situation is unsatisfactory and will be reviewed. However, significant opposition to change exists and there is a lot of work to be done.
Start of work on Code of Welfare for Velvet Removal.	<ul style="list-style-type: none"> • Work on the Code of Welfare for Velvet Removal has been postponed, pending a decision on its relevance from MAF. The National Velveting Standards Body (NVSB) programme is more comprehensive than a Code of Welfare and covers off both animal welfare and food safety requirements in a single document.
Outcomes of initial supply management meeting reported to industry and options identified and well advanced.	<ul style="list-style-type: none"> • Outcomes of meeting reported in industry publications. • Venison supply management: remains a necessarily commercial responsibility. While some producers would prefer a more collective approach, balance between demand for kill space and not 'over-supplying' was effectively managed commercially during the year. Increased production accommodated (12 percent increase over 03/04), diversification of exports was achieved and key markets reportedly not over-supplied. • Velvet supply management: producers agreed to hold back certain grades of velvet until 1 February 2006 to encourage orderly supply. Further initiatives are being considered. • Area for work identified is further development of industry supply information. This is being progressed.
Consultation on working group's draft Productivity Strategy and presentation of strategy at Conference. Implementation of strategy planned.	<ul style="list-style-type: none"> • Productivity improvement concepts presented at conference in May. Further work has been completed and draft strategy developed. • DEER Select component is available to industry. Further development is ongoing for implementation.
Industry consultation regarding collective funding of some Tb testing.	<ul style="list-style-type: none"> • Consultation completed through industry publications and discussion at conference in May. • Producers agreed to support the biennial funding of Tb testing in Special Testing Areas.
Key industry good activity regarding market access (China Free Trade Agreement, World Trade Organisation) and Animal Identification.	<ul style="list-style-type: none"> • Submission made, supportive of China FTA. DINZ participated in consultation by Government on agricultural negotiations in WTO. DINZ part of Animal ID and Traceability Working Group. All activity is ongoing.
Launch of new, stronger Primary Industry Council.	<ul style="list-style-type: none"> • The Primary Industry Council has restructured to a rotating chair structure and agreement to initiate action on a case by case basis. Structure is new, but appears to be working well.

SAFEGUARDING FUTURE GROWTH

Research expenditure in 2004-05 amounted to \$1,177,947 – 19% of total expenditure (excluding AHB).

This was broken down as follows:

- Expenditure on DEEResearch activities of \$444,057 (funded from **Game Industry Research Trust**, \$347,037 and **DINZ** \$97,020).
- Expenditure on **Velvet Antler Research New Zealand Ltd (VARNZ)** of \$733,890.
- A grant was made to **Game Industry Research Trust** of \$1,197,000 for research in 2005-06.

GAME INDUSTRY RESEARCH TRUST

Trustees: Jeffrey Pearse (Chairman), John Scurr (retired 7 July 2005), Stuart Natrass (appointed 7 July 2005) and Andrew Duncan.

The Research Trust funded \$347,037 of DEEResearch activity this year. All VARNZ and DEEResearch expenditure will be funded by the Trust in 2005/06 following a grant by DINZ to the Game Industry Research Trust of \$1,197,000.

VARNZ

Board: Richard Janes (Chairman), MJ Loza (retired 1 January 2005), Mark O'Connor (appointed 1 January 2005), William Rolleston, Jimmy Suttie, Doug Wilson.

The extended VARNZ Board has successfully completed its first full year of operation. New product development, welfare and velvet removal research undertaken by VARNZ included:

- Trials to commercialise a specialised velvet extract to assist wound healing. Research included bioassay development, pre-clinical trials, formulation and stability. Several practical obstacles were encountered, but overcome
- Investigation of the NaturO™ 'tied ring' method for spiker removal of branched antler. Trial was successful and the method was approved for three years by the National Animal Welfare Advisory Committee
- Ongoing investigation of adverse events following velvet removal. Purpose: information to producers to manage or avoid the risk
- Research into ring block effectiveness is nearing completion. Results will assist industry to improve ring block administration
- Research to address regulatory aspects of velvet removal is nearing completion;
 - Registration of Chloroprocaine to provide an alternative remedy for the removal of velvet progressing. Regulatory requirements for efficacy, velvet residues and safety complete. Tissue residues near completion
 - Clinical trial on metabolism of velvet remedies complete. Researchers report levels so low as to be insignificant
 - Effects of velvet removal under different systems including tourniquet first complete. Results used to develop industry best practice
 - Supported New Zealand Food Safety Authority survey of velvet. Results are being used to guide development of a refined tourniquet, and
 - Research to support continued used of Fentazin and Xylaket for velvet removal by veterinarians. Results suggest current Maximum Permissible Levels appropriate.

DEERESEARCH

Board: Collier Isaacs (Chairman), Noel Beatson (DFA), Graham Barrell (Universities), Peter Benfell (AgResearch), Bridgit Hawkins (AgResearch), Graeme Keeley (Venison Processors/Exporters) and MJ Loza (retired 1 January 2005), Mark O'Connor (appointed 1 January 2005) (DINZ)

Research funded by DEEResearch in DINZ's 2004-05 year included:

- Animal health – investigating diagnostic tools and a vaccine for Johnes's in deer, detection of *M. paratuberculosis* antigens, heritability of Tb resistance and prevention and management of leptospirosis
- Productivity – effect of genotype on reproductive performance, pasture management workshops, participation in Pastoral Genomics consortium (improved pasture – non-GM), strategies to achieve early calving, and a tool for assessing wapiti hybridisation to improve reproduction
- Environment and sustainability – participation in Pastoral Greenhouse Gases Research Consortium, dietary manipulation to decrease 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, and
- Venison Processing – tailoring venison processing to optimise tenderness, storage and colour.

POSITIONING VENISON: NOW & FOR THE FUTURE

Venison funds are invested by Deer Industry New Zealand (DINZ) to increase demand for New Zealand farm-raised venison in key markets.



Generic activities communicating the benefits of New Zealand venison were combined with joint promotions with exporters and importers to promote New Zealand venison and to achieve the industry's objectives.

All 2004-05 activities were aligned with the key strategies of the Venison Industry Strategic Intent 2005-10 and were designed to assist the attainment of the objectives of this industry agreed strategy.

JOINTLY FUNDED PROMOTION

Joint funded business-to-business and sales promotions have been effective in increasing sales and opening new channels for the distribution of New Zealand venison. DINZ contributed \$900,000 toward company specific activities which resulted in increased sales, new product development and increasing market acceptance of New Zealand venison. Company expenditure exceeded \$2 million on 67 venison marketing projects during the period, two dollars for every one dollar of DINZ investment.

Some examples of where DINZ funds were used to provide extra marketing boost include:

- **New products developed** for the retail market. Joint funding assisted with the costs of development and promotion of the new products to attract new consumers.
- **Distributors' seminars.** Joint funds brought customers' sales staff and potential clients together to learn about the qualities of New Zealand farm raised venison. This allowed a greater number of knowledgeable

sales calls to be made promoting New Zealand venison.

- **In-store tastings.** Once retail listing was achieved by companies, DINZ funds were used to provide samples and cooking advice to promote venison directly to consumers in supermarkets flooded with hundreds of competing meal solutions.

Consumer promotions, in conjunction with sales promotions to push volume, have been effective in increasing awareness of the quality of New Zealand venison across large sectors of the buying public.

INDUSTRY-FUNDED GENERIC PROMOTION

The core events of the 2004-05 year were *Sommerkampagne 2* and the *French Consumer Promotion*.

Building on the interest generated by *Sommerkampagne* in 2004, more advertising and in-store promotions were run in 2005. New Zealand aimed to push venison into the retail sector through the summer and advertising was integral to the sales strategy.

Companies achieved limited retail listing through the summer months and consumers expressed a willingness to try venison through the summer, although final sales volumes were small. New Zealand companies will build upon the experience gained from *Sommerkampagne* to continue developing the out-of-season retail market in Germany.

To capitalise on attainment of year round access to France in 2004, a short consumer promotion was run to boost demand and highlight the quality of New Zealand venison. Articles on New Zealand venison and recipes were placed in selected food and lifestyle publications.

New Zealand venison was featured on the menu at Galleries Lafayette for a month over summer and recipe brochures were distributed through the trade for them to pass on to their customers. Importers and distributors will build upon the work done in 2005 to push for increased sales into the French markets.

INDUSTRY GOOD ACTIVITIES

DINZ provided training in venison preparation and culinary inspiration for chefs in Hong Kong, USA, Germany, Belgium, Scandinavia and New Zealand while reinforcing the qualities of farm-raised New Zealand venison.

Promotions and sales were supported with the production of multilingual education materials, a supply of recipe brochures and the necessary merchandise materials required by sellers of New Zealand venison.

BELGIAN SEASONAL SALES RESTRICTION

Distributors of New Zealand venison in Belgium remain frustrated by archaic laws imposed by regional governments to protect the local hunting industry which mean they are unable to sell venison 12 months of the year.

DINZ and the New Zealand Government have lobbied regional politicians and officials and have received positive responses from two of the three regional governments which set the laws. However, success with the third will not come easily as the traditional, seasonal nature of the game trade and the entrenched opinions of the politicians concerned will need to be overcome before the sales restrictions are lifted.

DINZ will continue to work with Belgian interests and the New Zealand Government to have these restrictions removed.

ADVANCING NEW ZEALAND VENISON'S POSITION

New Zealand venison is sold throughout the world and the biggest markets are in Western Europe. Germans, Austrians, Swiss, French and Belgians look for venison in the winter months to enjoy in traditional cold-weather recipes.

Promotions and sales were supported with the production of multilingual education materials, a supply of recipe brochures and the necessary merchandise materials...

This served the New Zealand industry well when production volumes were smaller.

YEAR ONE VENISON STRATEGIC INTENT 2005-10

In 2004, the Strategic Intent identified several key challenges affecting the sustainable profitability of the New Zealand farmed venison industry within the control of an industry-wide approach.

HIGHLIGHTS YEAR ONE:

- **Build demand in new markets.** 5,500 tonnes – 83% more than the set target of 3,000 tonnes – was sent to new markets, outside traditional food-service channels. Initiatives that assisted towards this achievement included year two of *Sommerkampagne*, consumer promotion in France, production of multi-lingual promotional material and joint farm-raised venison promotion in the UK.
- **Promote New Zealand venison's consumption outside the game season.** This key message was promoted through generic and joint promotions, *Sommerkampagne* consumer advertising in Germany and company initiatives funded through the joint promotion scheme. Five German importers established new retail business as part of the process to push venison into retail outside of the traditional game season. In addition, chilled exports over this period were 280 tonnes in 2005, up slightly on the same period in 2004.
- **Build awareness of New Zealand country-of-origin.** This was a strong message in all promotional activities. Initiatives included joint-funding of new product development with companies which have a retail focus and the capacity to deliver New Zealand branded product to the final consumer, along with the provision of merchandising material to support point-of-sale. The German retail sector received 60,000 merchandising items highlighting New Zealand origin. New processed products carried clear New Zealand origin identification for sale at retail.



Above: New Zealand venison rib rack with vegetable spring rolls and Asian barbeque sauce.

As the industry has grown, however, new outlets are being developed to increase demand ahead of New Zealand's ability to supply.

Demand creation is not a short-term activity. A market must be created. New Zealand cannot sell venison to people with no experience of it and expect the same returns to be received as from those traditional markets which value New Zealand venison as a premium item.

Over the past year, New Zealand exporters have worked hard to develop markets to accommodate the increase in production and many producers have again shown their commitment to the long-term future of the industry by retaining their investment in the face of current low returns. However, changing customer behaviour and perceptions takes time and effort. The New Zealand deer industry is investing in the future by creating acceptance of New Zealand venison at non-traditional times of year and in non-traditional markets which will benefit the long-term

stability and profitability of the industry.

But these activities are not short-term cures for the oversupply of certain items which have occurred in our main markets in this past year. Nor can they overcome the exchange rate appreciation which has eroded the gains that have been made in the marketplace.

DINZ will continue to work alongside New Zealand venison exporters and importers implementing focused programmes to increase demand for New Zealand venison.



Innes Moffat, Venison Marketing Services Manager

The Otago-born and raised son of a beef and sheep farmer joined DINZ in May this year, following four years promoting red meat in Europe with Meat & Wool New Zealand.



Above: Sophie Wright, 21, of Westminster Kingsway College, London: the winner of this year's NZ-UK Link Foundation Culinary Challenge used New Zealand venison to win the working holiday of a lifetime in New Zealand.

GROWING BRITISH MARKET

Signs of the long awaited growth in the British venison market are being seen as consumers start to tap into the healthy eating qualities of the meat.

Britain's farm-raised venison production volume, approximately 6,000 carcasses a year is not enough to maintain a quality supply to a growing market and New Zealand venison is recognised to balance supplies for the sophisticated British retail market.

DINZ and the British Deer Farmers' Association worked on a range of public relations and marketing initiatives in 2004-05, including cookery demonstrations at food fairs and articles in food service magazines. Additional DINZ support was provided for the NZ-UK Link Foundation Culinary Challenge staged at September's Restaurant Show in London.

VELVET'S DIFFICULT TRADING ENVIRONMENT

2004-05 was another very difficult year for the New Zealand velvet industry.



Demand for velvet in Korea, the key market, remained sluggish while New Zealand supply had not yet adjusted. This resulted in a weighted average price for velvet sold in the pools of \$44, 48% below the ten-year average of \$84.

DINZ collected levy on 548 tonnes of frozen velvet, indicating velvet production levels very similar to the 2003-04 year. Exports, however, increased 15% to 260 tonnes (dried equivalent, FOB, provisional) while the value of those exports dropped by 13% to approximately \$24 million.

Poor returns for New Zealand velvet have been exacerbated by the weakness of the Korean won against the New Zealand dollar (16% weaker than the 10 year average), coupled with an over-reliance on the Korean market where economic stagnation has constricted consumer spending on discretionary items such as velvet.

Also apparent in Korea, and other countries such as China and Taiwan, is that more health products compete for the consumers' health product budget. While oriental medicine is still very popular and respected, trends toward healthy living have led to an increase in the number of different health products available. This has contributed to a levelling off of demand for velvet in Korea, making product development and developing new markets all the more important.

DIVERSIFICATION REMAINS KEY TO FUTURE GROWTH

Gaining access to and creating new demand in new markets is a vital step to achieving long-term profitability for the velvet industry. This is the premise on which the New Zealand Velvet and Co-Products Industry Strategy 2005-10 was founded.

SOUTH KOREA

On 29 August 2005, New Zealand was finally approved as a country from which sliced velvet can be exported. Individual processors are still to be approved as exporters, but the years of lobbying have proved worthwhile given this progress. Activity continues toward removing the Special Excise Tax on velvet.

The temporary reduction of the tax from 7% to 4.9% was extended. During the year, the feasibility of selling velvet as a food product ingredient was investigated and several food companies were encouraged to develop food products. This area shows promise to serve younger consumer markets characterised by the demand for convenient forms of health products.

TAIWAN

In Taiwan, the five tonne tariff-rated quota limits New Zealand's access to the lucrative fresh velvet trade. During the period, DINZ retained the services of a political public relations specialist with strong political allies. On 31 May 2005, Deer Industry New Zealand led a launch of the access campaign alongside importers and wholesalers, with an event called "*The Taiwan/New Zealand Antler Science Research Seminar*". Attracting over 100 attendees, the event was covered by nine newspapers and six television stations. A total equivalent advertising value of over \$275,000 was generated by the media.

The Taiwanese Government's Council of Agriculture has acknowledged the quota needs to be reviewed. Further work will keep pressure on the Council of Agriculture and help to influence the scale of any quota review.

Left: Potential consumers in New Zealand's primary market. Seoul, Korea.

PEOPLE'S REPUBLIC OF CHINA

With changing regulations, China was a market of smoke and mirrors in 2004-05. DINZ now has a high level of understanding of the regulations pertaining to velvet, co-products and venison. In 2006, Deer Industry New Zealand will work with both government and commercial partners to improve access and generate incremental demand. A bi-lateral protocol negotiation will be initiated, and joint commercial work will be undertaken with New Zealand and in-market distribution partners where opportunities exist.

WESTERN MARKETS AND OTHER OPPORTUNITIES

In the United States, the sports nutrition market has been targeted through joint promotions, leveraging existing research of velvet and athletic performance to provide the western scientific results needed to

substantiate claims. Similar promotions will continue with partners active in the market place.

Australia, a market currently closed to final dose form velvet products, may open up with the harmonisation of therapeutic product regulations between Australia and New Zealand. DINZ continued to work closely with Medsafe to ensure a good outcome for the industry.

In New Zealand, the use of Colin Meads in joint promotional television advertising changed the perceptions of velvet for the better. Similar advertising utilising Meads will continue in 2005-06. The athlete sponsorship programme was reignited with young and upcoming athletes taken on board and some of them are already seeing success.

The benefits of New Zealand velvet in the high-end petfood and pet supplement markets was promoted to begin to develop incremental demand

for velvet both in New Zealand and in international markets.

COLLABORATIVE MARKETING

During the period, six joint promotional projects were initiated. Five of these projects targeted opportunities outside of the traditional oriental medicine business, with the objective of developing incremental demand.

WOUND HEALING PRODUCT DEVELOPMENT CONTINUED

The development of a wound healing product derived from deer velvet can add significant value to the velvet industry. Two patents have already been filed and further patents are likely to follow as work progresses. During the period, a detailed business plan was developed for the product and as a result, potential partner companies will be identified and approached in 2006.

The coming year will see changes

YEAR ONE VELVET STRATEGY 2005-2010

Achieving the key elements of the velvet strategy will have a real impact on the velvet industry's sustainability.

HIGHLIGHTS YEAR ONE:

- **Five joint promotional projects initiated targeting opportunities outside of the traditional Korea/Chinese medicine market:**
 - New Zealand velvet supplement product launched and promoted to the US pet supplement market.
 - US fitness market targeted with velvet product for weight trainers.
 - Image of velvet improved in New Zealand by using Colin Meads' endorsement through television advertising.
- **New Zealand approved as a country** from which sliced velvet can be imported into Korea.
- **Korea Special Excise Tax rate** for velvet temporary reduction extended.
- **Taiwan Council of Agriculture engaged in positive discussions** on frozen velvet quota expansion.
- **The Taiwan/New Zealand Antler Science Research Seminar held in Taiwan**, in association with importers and wholesalers generated \$275,000 in equivalent advertising value and addressed both research and quota expansion issues.
- **Import regulations into China clarified** after sweeping regulatory changes imposed by the Chinese government.



Above: Deer in velvet, Kapiti, Lower North Island.

in the focus of the wound healing programme, as the product moves from the initial development phase to the pre-clinical testing stage and beyond. Work will continue to increase in this area as VARNZ nears its goal of securing a commercial partner within the next two years.

VELVET REMOVAL

VELVET RESIDUES SURVEY

Following mixed results from an NZFSA velvet residues survey, DINZ initiated a two-year study into the development of a standard tourniquet with Massey University. The device is expected to be ready for the 2007-08 velvet season.

MAXIMUM RESIDUE LEVELS

DINZ raised several concerns over the current MRL setting process with NZFSA during the period. NZFSA's response was that MRLs are set in order to keep the amount of agricultural compounds as low as possible, without affecting their efficacy. They are not safety limits. Industry must now determine minimum practical residue levels during velvet removal, before an MRL revision will be considered by NZFSA.



Daimien Reynolds,
General Manager Marketing

Son of retired Hawke's Bay sheep and cattle farmers, Daimien added his marketing skills, affinity with Asian cultures and passion for adventure sports to the DINZ Executive in early February.



Above: NUCMA Chairman Chen-Bing Lin and two staff at his third generation Oriental Medicine store, Seng Yuang Trading Company, in Taipei.

TAIWAN RETAILERS CALL FOR REMOVAL OF QUOTA

The Chairman of Taiwan's 18,000 member National Union of Chinese Medicine Association (NUCMA) called for the five-tonne quota on frozen velvet to be removed at the Taiwan New Zealand Research seminar in May.

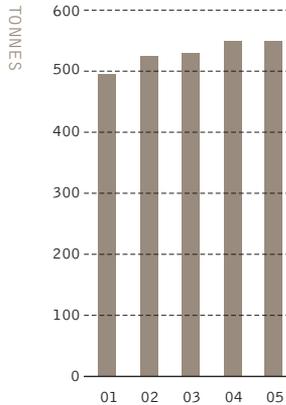
A former importer of New Zealand velvet, Mr Chen-Bing Lin now regularly sells it to his clients through his retail business. With the slower Taiwanese economy affecting consumer confidence and demand for velvet slipping over time with changing lifestyles and improved general health, plus a market preference for fresh velvet, he believes oriental medicine retailers miss out on much of the high margin market. Current restrictions also hamper the "reinvention" of velvet for younger consumers.

Removing the quota on frozen velvet would open up the market and allow competition with the locally produced fresh velvet. He believes New Zealand can contribute valuable research findings and, through increased marketing investment and product availability, grow the market to mutual benefit.

2005 IN REVIEW

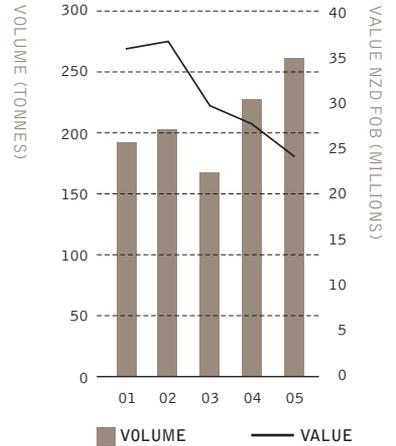
A snapshot of the New Zealand deer industry from 1 October 2004 to 30 September 2005.

VELVET PRODUCTION



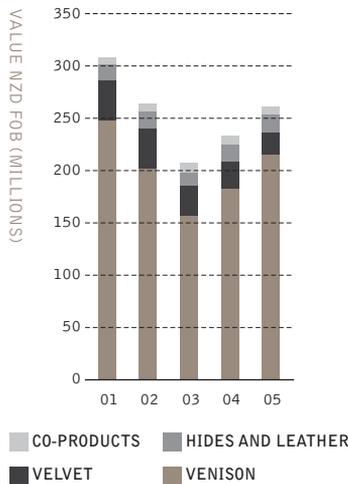
Velvet production (of tonnage on which levy was collected) held steady at 548 tonnes in 2004-05, the same as the previous year.

VELVET EXPORTS



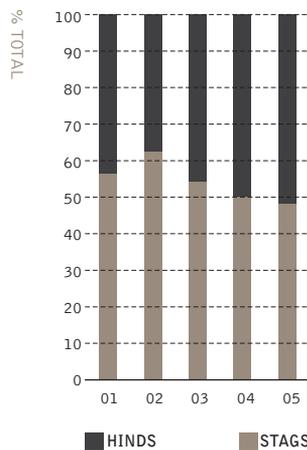
New Zealand exported 260 tonnes of dried equivalent velvet in the 2004-05 year, worth \$24 million. While volume grew by 15% on the previous year, total value was down by 13%.

TOTAL EXPORT EARNINGS



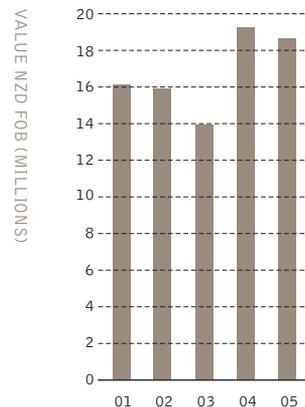
New Zealand exports earned a combined \$263 million in the year to 30 September 2005 (provisional), an increase of 11% on the previous year. At 81%, venison was the biggest contributor to the total, earning New Zealand 17% more than the previous year. Velvet contributed 9%, hides and leather 7% and co-products just over 2%. The strength of the New Zealand dollar during the 2004-05 period has adversely affected earnings for the industry.

VENISON PRODUCTION



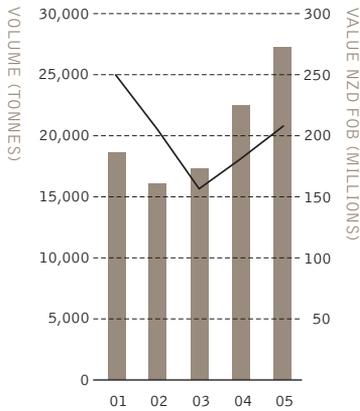
A total of 762,427 deer were killed during the year to end September 2005, 12% more than in 2004. In particular, the steady growth in hind kill, which increased again by 2% to now stand at 52% of the total, is of concern for the industry as it means the future breeding herd size is diminishing and will impact on future size of kill and herd size.

HIDES & LEATHER



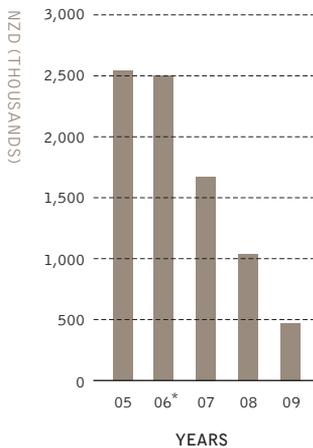
The value of New Zealand's deer hides and leather have risen by 14% since the year ending September 2001 when 358,000 hides and 119,000 square metres of leather were produced and reached a peak last year at just over \$19 million. In the 2004-05 year, value fell back by just under 4% to \$18.3 million for 366,000 hides and 198,000 square metres of leather.

VENISON EXPORTS



New Zealand exported 27,319 tonnes of venison in the 2004-05 year, worth \$213 million. Volume has increased 20% over the previous year against a 17% increase in value.

DINZ RESERVES

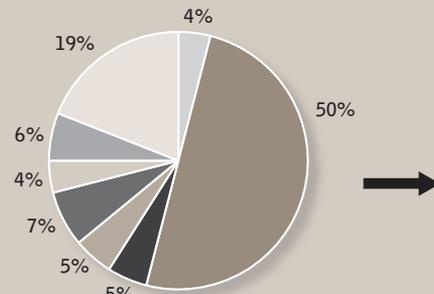


DINZ operates a five year business plan to ensure sufficient 'working capital' to allow consistent investment in industry good promotion and other core areas despite fluctuating production and therefore levy income. This also minimises changes to levy rates. This necessitates variation in DINZ's reserves position. This position and forecast position are illustrated in the above graph.

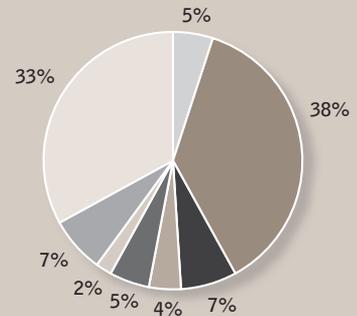
*Actual
+ Budget

VENISON EXPORTS BY MARKET

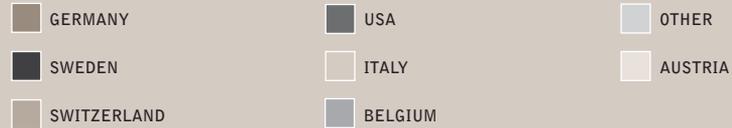
2001



2005



KEY

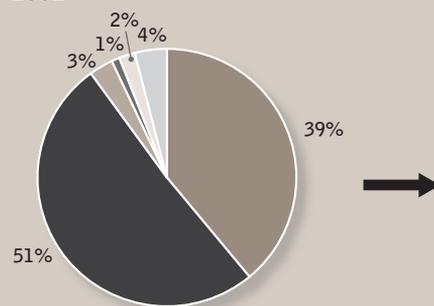


At the September 2005 year-end, Germany retained the top position with 38% of the total volume. However, this is a decrease of just over 5% on the previous year indicating effective diversification of additional production away from Germany. The volume of New Zealand venison exports to new markets, including Taiwan, Australia,

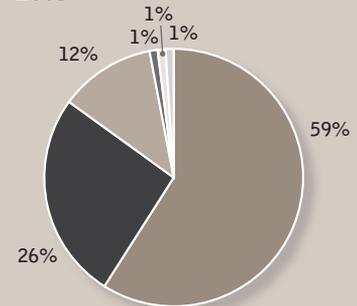
the UK and the Netherlands, jumped up by 85% during 2004-05 and now accounts for a third of the total tonnage, up from a fifth at the end of the 2001 season. France, the United States, Belgium, Sweden, Italy and Austria were other noteworthy markets with significant volume lifts recorded for France, Sweden and Austria during the year.

VELVET EXPORTS BY MARKET

2001



2005



KEY



Still the primary market accounting for 59% of New Zealand's total velvet exports, the Republic of Korea received over 103% more New Zealand velvet in the year ending September 2005, compared to 2001 reflecting an increase in direct exports rather than through Hong Kong. Exports

directly to the People's Republic of China – now New Zealand's third largest market – have grown since 2001. Much of this velvet is re-exported to Korea. Exports to the US have grown by 77% in the same period (from a small base).

TO THE READERS OF DEER INDUSTRY NEW ZEALAND AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005

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 2005.

UNQUALIFIED OPINION

In our opinion:

- the financial statements of Deer Industry New Zealand and Group on pages 19 to 28:
 - 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 2005; and
 - the results of their operations and cash flows for the year ended on that date.
- Based on our examination Deer Industry New Zealand kept proper accounting records.

The audit was completed on 22 December 2005, 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 2005. 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 area of taxation advice, which is compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in Deer Industry New Zealand or any of its subsidiaries.



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 2005

	Notes	Consolidated 2005 \$	Consolidated 2004 \$	Parent 2005 \$	Parent 2004 \$
INCOME					
Levy Income Venison	2	5,009,902	4,425,912	5,009,902	4,425,912
Levy Income Velvet		1,917,284	1,913,106	1,917,284	1,913,106
Interest Received	2	248,705	166,169	194,808	122,771
Other Income		199,948	101,968	199,948	101,968
Animal Health Board Levy Received	3	2,931,068	950,440	2,931,068	950,440
Total Income		10,306,907	7,557,595	10,253,010	7,514,197
EXPENDITURE					
OPERATING EXPENDITURE					
Audit Fees	4	25,305	18,000	25,305	18,000
Depreciation	6	54,406	64,143	54,406	64,143
Board and Directors' Fees and Expenses	9	231,200	251,254	219,179	237,048
Foreign Currency Loss		2,072	4,381	2,072	4,381
Insurance		195,685	208,084	195,685	208,084
Other Fees Paid to Auditors		5,400	16,913	5,400	16,913
Other Operating Expenses		365,751	406,052	322,051	353,116
Premises Rental and Costs		66,715	118,974	66,715	118,974
Total Operating Expenditure		946,534	1,087,801	890,813	1,020,659
COMMUNICATIONS		393,569	386,642	393,569	386,642
QUALITY ASSURANCE		205,116	257,633	205,116	257,633
PRODUCER MANAGEMENT		195,801	160,991	195,801	160,991
VENISON PROMOTION					
Generic Promotion		1,537,779	1,487,217	1,537,779	1,487,217
Joint Promotion		962,084	1,020,220	962,084	1,020,220
Total Venison Promotion		2,499,863	2,507,437	2,499,863	2,507,437
VELVET					
Promotion		471,786	270,397	471,786	270,397
Velvet Removal		384,820	390,064	384,820	390,064
Product Information and Issues Management		0	84,984	0	84,984
Total Velvet Expenditure		856,606	745,445	856,606	745,445

The accompanying notes on pages 23 to 28 form part of these financial statements.

DEER INDUSTRY NEW ZEALAND
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 SEPTEMBER 2005 (CONTINUED)

	Notes	Consolidated 2005 \$	Consolidated 2004 \$	Parent 2005 \$	Parent 2004 \$
OTHER					
Animal Health Board Levy Paid	3	2,037,762	1,610,429	2,037,762	1,610,429
Grant To Cervena Trust Limited		0	0	55,592	66,496
Research	12	1,263,627	1,291,976	2,113,590	1,341,671
Total Other Expenditure		3,301,389	2,902,405	4,206,944	3,018,596
Total Expenditure		8,398,878	8,048,354	9,248,712	8,097,403
Net Surplus/(Deficit) Before Taxation		1,908,029	(490,759)	1,004,298	(583,206)
Taxation	5	0	0	0	0
Net Surplus/(Deficit) After Taxation		1,908,029	(490,759)	1,004,298	(583,206)
Surplus Attributable to:					
Deer Industry New Zealand Members		141,363	159,039	110,992	76,783
Game Industry Research Trust		873,360	10,191	0	0
Animal Health Board Levies		893,306	(659,989)	893,306	(659,989)
		1,908,029	(490,759)	1,004,298	(583,206)

DEER INDUSTRY NEW ZEALAND
STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Notes	Consolidated 2005 \$	Consolidated 2004 \$	Parent 2005 \$	Parent 2004 \$
Opening Accumulated Funds		1,580,851	2,071,610	701,067	1,284,273
Net Group Surplus/(Deficit)		1,908,029	(490,759)	1,004,298	(583,206)
Total Recognised Gains and Losses		1,908,029	(490,759)	1,004,298	(583,206)
Closing Accumulated Funds		3,488,880	1,580,851	1,705,365	701,067
Closing Accumulated Funds relate to:					
Deer Industry New Zealand	10	1,268,125	1,155,481	783,340	701,067
Animal Health Board	10	922,025	0	922,025	0
Game Industry Research Trust	10	1,298,730	425,370	0	0
		3,488,880	1,580,851	1,705,365	701,067

The accompanying notes on pages 23 to 28 form part of these financial statements.

DEER INDUSTRY NEW ZEALAND
STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2005

	Notes	Consolidated 2005 \$	Consolidated 2004 \$	Parent 2005 \$	Parent 2004 \$
Accumulated Funds	10	3,488,880	1,580,851	1,705,365	701,067
Represented by:					
Current Assets					
Short Term Bank Deposits		4,400,798	2,539,086	2,572,040	1,673,854
Accounts Receivable		991,179	789,310	986,202	786,155
Prepayments		0	19,879	0	19,879
Intercompany Account Cervena Trust		8,889	8,889	0	0
Intercompany Account Cervena Company Limited		0	0	(100)	0
Intercompany Account Group Research Holdings Ltd		0	0	0	(100)
Total Current Assets		5,400,866	3,357,164	3,558,142	2,479,788
Less Current Liabilities					
Accounts Payable		682,048	636,982	467,885	590,871
Accruals		926,240	855,983	926,240	855,983
Employee Entitlements		56,866	55,811	56,866	55,811
Intercompany Account Group Research Holdings Ltd		0	0	334,200	392,821
Intercompany Account Research Trust		0	0	155,154	0
Intercompany Account DEEResearch Ltd		17,395	0	0	0
Intercompany Account VARNZ Ltd		316,735	344,002	0	0
Total Current Liabilities		1,999,284	1,892,778	1,940,345	1,895,486
Non Current Assets					
Fixed Assets	6	87,268	116,465	87,268	116,465
Investment in Subsidiaries / Associates		30	0	300	300
Total Non Current Assets		87,298	116,465	87,568	116,765
Net Assets		3,488,880	1,580,851	1,705,365	701,067



JOHN SCURR, CHAIRMAN OF THE BOARD
22 December 2005



STUART NATRASS, CHAIRMAN OF AUDIT COMMITTEE
22 December 2005

DEER INDUSTRY NEW ZEALAND
STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Consolidated 2005 \$	Consolidated 2004 \$	Parent 2005 \$	Parent 2004 \$
Cashflows from Operating Activities				
Cash was provided from:				
Venison and Velvet Levies	7,620,445	5,655,828	7,620,445	5,655,263
Interest Received	245,572	179,020	194,808	137,858
Other Operating Income	199,948	101,968	199,948	101,968
	<u>8,065,965</u>	<u>5,936,816</u>	<u>8,015,201</u>	<u>5,895,089</u>
Cash was applied to:				
Payments to Suppliers and Employees	6,176,971	6,561,959	7,089,734	6,565,280
Resident Withholding Tax Received	1	0	0	0
	<u>6,176,972</u>	<u>6,561,959</u>	<u>7,089,734</u>	<u>6,565,280</u>
Net Cashflows from Operating Activities	1,888,993	(625,143)	925,467	(670,191)
Cashflows from Investing Activities				
Cash was applied to:				
Purchase of Fixed Assets	25,209	57,716	25,209	57,716
Net Cashflows from Investing Activities	(25,209)	(57,716)	(25,209)	(57,716)
Net Increase/(Decrease) in Cash Held	1,863,784	(682,859)	900,258	(727,907)
Opening Cash Balance	2,539,086	3,226,326	1,673,854	2,406,142
Effect of exchange rate change on foreign currency balances	(2,072)	(4,381)	(2,072)	(4,381)
Closing Cash Balance	4,400,798	2,539,086	2,572,040	1,673,854
Reconciliation of Net Surplus/(Deficit) After Tax With Operating Activities				
Reported Surplus/(Deficit)	1,908,029	(490,759)	1,004,298	(583,206)
Add:				
Non Cash Items				
Depreciation	54,406	64,143	54,406	64,143
Loss on Sale of assets	0	5,741	0	5,741
Foreign Currency Loss	2,072	4,381	2,072	4,381
	<u>56,478</u>	<u>74,265</u>	<u>56,478</u>	<u>74,265</u>
Movement in working capital				
Accounts Receivable	(201,869)	(10,350)	(200,047)	(8,679)
Prepayments	19,879	(5,944)	19,879	(5,944)
Accounts Payable	45,066	(386,283)	(122,986)	(271,457)
Accruals	70,257	169,117	70,257	169,117
Employee Entitlements	1,055	0	1,055	0
Subsidiary and Associates Receivables / Payables	(9,902)	24,811	(58,621)	(44,287)
Game Industry Research Trust	0	0	155,154	0
	<u>(75,514)</u>	<u>(208,649)</u>	<u>(135,309)</u>	<u>(161,250)</u>
Net Cashflows from Operating Activities	1,888,993	(625,143)	925,467	(670,191)

The accompanying notes on pages 23 to 28 form part of these financial statements.

DEER INDUSTRY NEW ZEALAND**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005**

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

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

1. STATEMENT OF ACCOUNTING POLICIES**(a) General Accounting Policies**

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

(b) Particular Accounting Policies

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

Basis of Consolidation

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

The following entities have been consolidated for the period ended 30 September 2005:

- **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 2005.
- **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 2005:

- **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. 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. 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: 5-10 Years; Office Equipment: 5 Years; Computer Equipment: 3 Years.

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005

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. INCOME

Income comprises venison and velvet levies received from members in the ordinary course of business.

Interest income is accounted for as earned.

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 was a difference

between amounts collected and amounts paid due to the variation between actual and forecast production, on which levy is collected. Over time it is expected that over and under collections of the AHB levy will net off. Note 10 shows the cumulative over / under collection of AHB levies held in reserve at balance date.

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:	\$22,105
Audit of other Group entities:	\$3,200

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005

5. TAXATION

	Consolidated 2005 \$	Consolidated 2004 \$	Parent 2005 \$	Parent 2004 \$
Net Surplus/(Deficit) Before Tax	1,908,029	(490,759)	1,004,298	(583,206)
Permanent Differences	(849,121)	49,737	24,239	53,130
	1,058,908	(441,022)	1,028,537	(530,076)
Tax @ 33%	349,440	(145,537)	339,417	(174,925)
Deferred Tax Asset not Previously Recognised	(349,440)	145,537	(339,417)	174,925
Income Tax Charge as per Statement of Financial Performance	0	0	0	0

Imputation Credits

	Consolidated 2005 \$	Consolidated 2004 \$	Parent 2005 \$	Parent 2004 \$
Opening Balance	1,145,096	1,145,153	500,749	500,749
Resident Withholding Tax Refunded	0	(65)	0	0
Resident Withholding Tax Paid	1	8	0	0
Closing Balance	1,145,097	1,145,096	500,749	500,749

Deer Industry New Zealand, Cervena Company 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 \$7,714 (2004: \$867,610) 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 (CONSOLIDATED & PARENT)

	Cost \$	Accumulated Depreciation \$	NBV 2005 \$	NBV 2004 \$	Depreciation 2005 \$	Depreciation 2004 \$
Furniture & Fittings	71,381	32,397	38,984	49,990	12,369	15,364
Computer Equipment	347,268	300,396	46,872	63,995	40,970	47,712
Office Equipment	33,994	32,582	1,412	2,480	1,067	1,067
Total	452,643	365,375	87,268	116,465	54,406	64,143

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005

7. SEGMENTAL REPORTING

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

The Group entities conduct work in New Zealand and a number

of overseas countries in the fulfilment of their purpose – assisting the orderly development of the deer industry and promoting products derived from deer.

8. FINANCIAL INSTRUMENTS**Nature and Extent**

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

Fair Value

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

Credit Risk

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

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

Interest Rate and Currency Risk

While the majority of the Group's activities are carried out in New Zealand, of the total expenditures incurred by the Group approximately 18% were denominated in foreign currency.

At balance date, foreign currency deposits totalled \$3,013 (2004: \$116,370). The notional or principal contract amounts of foreign exchange instruments at balance date for the parent and group were for forward exchange contracts of \$927,772 (2004: Nil). The unrealised gain on these contracts at balance date is \$4,350 (2004: Nil). All deposits held by the Group are short term in nature. The Group receives interest at current market rates.

9. BOARD AND DIRECTORS' FEES AND RELATED EXPENSES

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

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

The 2005 year total for Deer Industry New Zealand is \$219,179 (2004: \$237,048). This comprises \$162,500 in Board fees (2004: \$183,132), \$11,500 in additional domestic and overseas representation fees for Mr Clive Jermy (2004: \$12,600); and \$45,179 in travel and accommodation expenses (2004: \$41,316).

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

- Mr Clive Jermy resigned from the Board on 30 June 2005 and was replaced on 1 July 2005 by Mr Graham Carr;
- Mr John Scurr was appointed chairman from 1 July 2005;
- Mr Stuart Nattrass was appointed Deputy Chairman on 1 July 2005.

Cervena Company Limited

Mr Michael-John Loza resigned as a director on 1 January 2005 and was replaced by Mr Mark O'Connor on the same date. There were no director fees or travel expenses paid.

Cervena Trust Limited

Directors' fees totalled \$12,000 for both financial years. Trustees Mr David Wright, Mr James Guild and Mr John Upton received fees of \$4,000 each in the current financial year. Travel expenses were \$21. (2004: \$1,706).

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005

10. ACCUMULATED FUNDS

The accumulated funds of the Group are \$3,488,880 (2004: \$1,580,851), of which \$1,298,730 (2004: \$425,370) is held by the Game Industry Research Trust and \$922,025 is held in Reserve for the Animal Health Board. 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. The Animal Health Board Reserve represents levies collected in excess of the annual funding arrangements.

	2005 \$	2004 \$
Deer Industry New Zealand		
Opening Balance	1,155,481	996,442
Surplus attributable to Deer Industry New Zealand	141,363	159,039
Transfer to Animal Health Board Reserve	(28,719)	0
Closing Balance	1,268,125	1,155,481
Game Industry Research Trust		
Opening Balance	425,370	415,179
Surplus attributable to Game Industry Research Trust	873,360	10,191
Closing Balance	1,298,730	425,370
Animal Health Board Reserve		
Opening Balance	0	0
New Zealand Accumulated Funds	28,719	0
Net Levies AHB Levies Received/(Payments)	893,306	0
Closing Balance	922,025	0

11. EMPLOYEE REMUNERATION

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

Remuneration Range	Number of Employees
\$100,000 - \$109,999	1
\$140,000 - \$149,999	1

The remuneration of staff resident outside New Zealand has been converted to New Zealand dollars for the purpose of this disclosure.

12. 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 (2005: \$733,890; 2004: \$832,864) and DEEResearch Limited (2005: \$97,020; 2004: \$413,973). This funding is provided via Group Research Holdings Limited. The Game Industry Research Trust also provides funding to DEEResearch Limited. Deer Industry New Zealand also provided a research grant to the Game Industry Research Trust of \$1,197,000 (2004: nil).

An operational grant of \$55,592 (2004: \$66,496) was provided from Deer Industry New Zealand to Cervena Trust Limited.

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

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

DEER INDUSTRY NEW ZEALAND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005

13. COMMITMENTS

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

	Parent & Consolidated 2005 \$	Parent & Consolidated 2004 \$
Not later than 1 year	57,011	57,011
Later than 1 year and not later than 2 years	57,011	57,011
Later than 2 years	171,033	209,042

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

Not later than 1 year	566,900	286,875
Later than 1 year and not later than 2 years	262,300	186,250
Later than 2 years	64,300	85,625

Commitments in respect of research contracts entered into by Velvet Antler Research New Zealand Limited are as follows:

Not later than 1 year	510,000	524,845
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Commitments in respect of funding of deer sector indivisible costs entered into by Deer Industry New Zealand for the National Bovine Tuberculosis Pest Management Strategy with the Animal Health Board are as follows:

Not later than 1 year	1,200,000	1,350,000
Later than 1 year and not later than 2 years	1,200,000	1,200,000
Later than 2 years	900,000	3,100,000

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

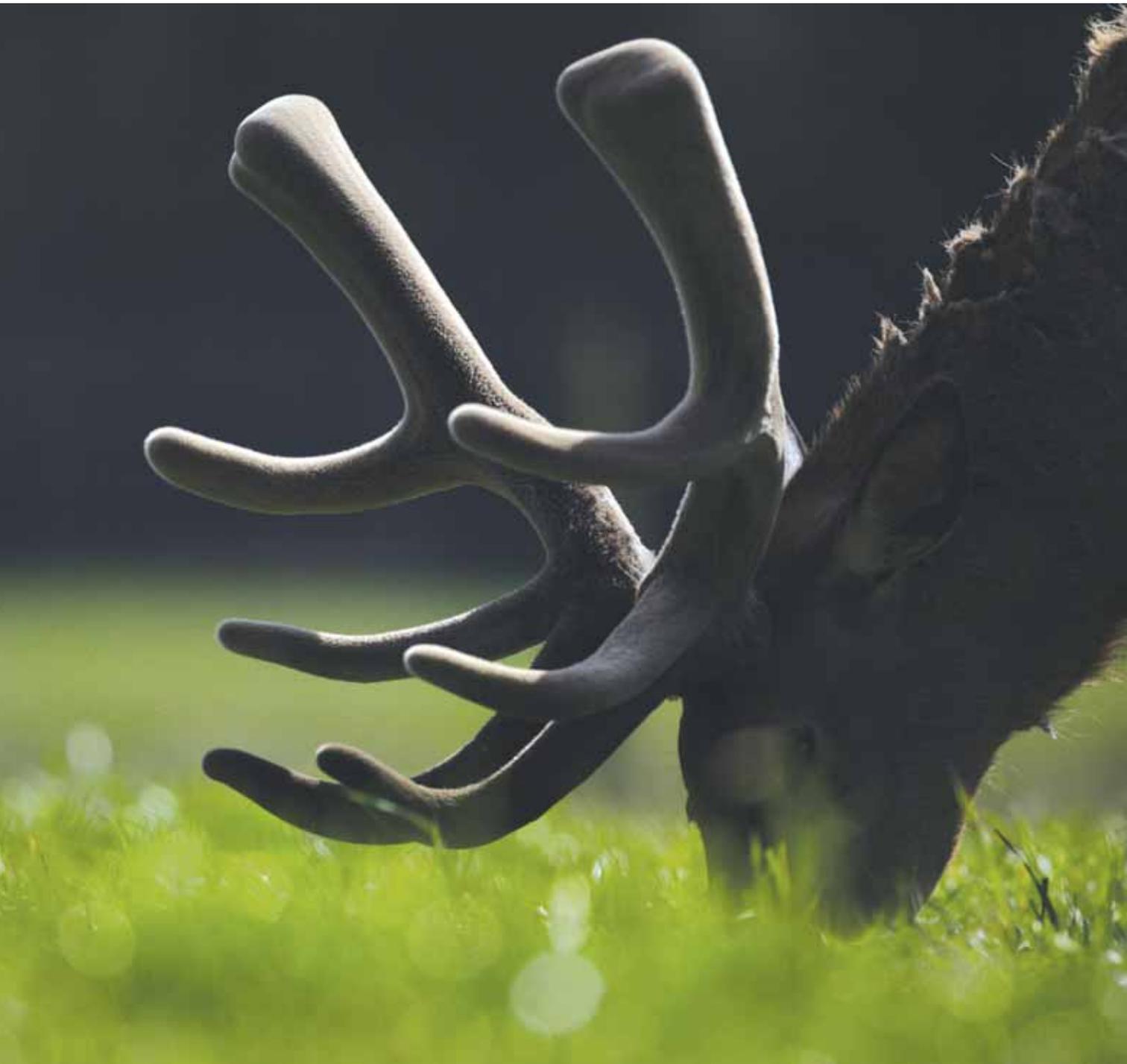
14. CONTINGENCIES

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

a. guarantee the due performance and observance of the guaranteed obligations by its subsidiary companies; and

b. indemnify against any loss or damage due to any breach of the unincorporated joint venture agreements by its subsidiary companies.

Deer Industry New Zealand has entered into an agreement with Kim, Shin & Yu of Korea which includes a success fee equivalent to approximately \$67,000 which is payable upon successful completion of the contracted project. A similar agreement has been entered into with Jet-Go Public Relations Consultants Co Ltd of Taiwan which includes a success fee equivalent to approximately \$134,000.



Above: New Zealand deer velvet is a high quality choice for consumers in traditional and new velvet markets.

DEER INDUSTRY NEW ZEALAND EXECUTIVE AS AT 30 SEPTEMBER 2005

	POSITION	DIRECT LINE	MOBILE	EMAIL
Janice Attrill	Systems Manager	(04) 471 6114	–	janice.attrill@deernz.org
Rob Gregory	NVSB Manager	(04) 471 6116	(021) 231 6657	rob.gregory@deernz.org
Innes Moffat	Venison Marketing Services Manager	(04) 471 6111	(021) 465 121	innes.moffat@deernz.org
Mark O'Connor	Chief Executive Officer	(04) 471 6113	(021) 743 624	mark.oconnor@deernz.org
Tony Pearse	Producer Manager	(04) 471 6118	(021) 719 038	tony.pearse@deernz.org
Daimien Reynolds	General Manager Marketing	(04) 471 6112	(021) 506 647	daimien.reynolds@deernz.org
John Tacon	Quality Manager	(04) 471 6117	(021) 242 2873	john.tacon@deernz.org

CONTRACTED SPECIALISTS

Graham Brown	Contracted Chef	–	–	graham@thecookhouse.co.nz
John Moynihan	Technical Consultant	–	–	john.moynihan@xtra.co.nz
Ali Spencer	Communications Consultant	–	–	spencerpr@paradise.net.nz
Sandra Windley	Finance Contractor	(04) 474 0841	–	sandra.windley@deernz.org



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