

ANNUAL REPORT

2005 – 2006



**DEER INDUSTRY
NEW ZEALAND**

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**WHAT WE SAID WE'D DO IN 2005-06
(from Annual Report 2004-05)**

WHAT WE DID

Review of progress on year 2 of the velvet and venison strategies.

- Strategies reviewed and progress reported at Deer Industry Conference in May 2006.
- Progress reported in industry publications.
- Strategy is endorsed by all major industry groups, with a recommendation to consider more effective measurement.

Cervena™ promotions in the United States as Cervena licensees and DINZ reinvigorate the programme.

- Twenty high-profile chefs events staged promoting Cervena.
- Television coverage of Cervena events.
- All licensees committed to ongoing collective promotion of Cervena.
- New website attracted 10,000 visitors in the first six months.

Targeted promotions in German supermarkets to align promotion with where New Zealand venison is available, which will link promotion to product.

- Revised approach to retail development in Germany agreed by all exporters and their importing partners. New programme launched via supermarket promotions throughout Germany. Seven importers committed to using the new programme.

Public relations and joint promotion to promote venison in New Zealand as DINZ works with companies to build on existing retail sales and new product development.

- Press and recipe releases distributed to all recipe magazines in New Zealand. Recipe releases sent to 40 food writers throughout the country. Resulted in mentions in national food service magazines, national recipe magazines, national radio, television coverage and numerous appearances of DINZ material in local and regional press.

Progress on access issues including 12-month sales in Belgium, China and Taiwan.

- Protocol for the export of deer products to China agreed and signed by the New Zealand and Chinese Governments.
- Seven velvet exporters approved to export sliced velvet to Korea.
- Work continues on Belgium out-of-season access. Deer Industry New Zealand raised the possibility that the seasonal sales restriction may contravene the European Treaty on the movement of free goods. New Zealand Government following up.
- Work on improved access for New Zealand velvet to Taiwan continues. Progress is challenging.

Implementation of the Industry Productivity Strategy, including clear, measurable goals, effective technology transfer of existing information and new research for further information required.

- Productivity Strategy working group finalised strategy, goals and objectives and its linkage with the AgResearch/FRST/DEER research bid.
- Four Focus Farm projects have been initiated for development in 2006-07 which complement the two existing SFF-funded projects.

Final development and launch of DEER Select.

- December 2005: first cross herd sire reference lists released for growth traits. Updated at three-monthly intervals with 200 stags referenced. DEER Select branding completed and research projects to develop velvet antler traits completed for analysis and development in 2006-07.
- Publicity and promotion campaign released in December 2006.

New sales of new velvet products in Asia.

- New product development with a Chinese company. Company registered nine finished velvet and co-products for the first time.
- Export issues for velvet to China resolved.
- Promotion of velvet as a healthy food in the Republic of Korea begun.

Further progress on a wound healing product from velvet. Discussions with potential commercialisation partners initiated.

- Development work continued.
- Commercial development consultant providing further direction and assistance.
- Initial discussion with well-connected wound healing clinician in Australia may lead to trials in Australia and useful commercialisation contacts.

Higher profile of New Zealand velvet in the sports health market.

- Public relations activity via joint promotion resulted in coverage in trade press and sports nutrition publications.
- New Zealand velvet product being trialled by largest sports nutrition chain in the United States.
- Sponsorship of 'Powered by velvet.org' resulted in internet coverage on New Zealand velvet.

Approval of the Code of Welfare for deer farming.

- Code has been signed off by the Minister and is with MAF Policy. Deer Industry New Zealand has not been advised of any significant concerns. Final approval is expected after year end.



**JOHN
SCURR**

CHAIRMAN'S REPORT

Deer Industry New Zealand strategies for venison and velvet and the activity in the venison and velvet sections reflect that industry development has continued strongly – in spite of industry conditions. There has been a raft of new initiatives and activity.

STRATEGIC POSITIONING

In terms of strategic positioning, the New Zealand deer industry remains well placed. Low in fat and high in bio-available iron, New Zealand venison is a perfect protein option for a world becoming more obese, older; and with a higher incidence of lifestyle-related diseases such as diabetes. New Zealand remains the pre-eminent supplier of farm raised venison and is best placed to capture growth in the category. Velvet is still a key, sought-after ingredient in traditional Korean medicine. New Zealand has become 'supplier of choice' following issues with Russian, Chinese and Canadian velvet. New Zealand velvet is well positioned to capitalise on growth in China and Taiwan. Further, velvet is a unique tissue with unique uses, such as quicker, better wound healing and it has a small, but growing niche in sports nutrition and pet health.

The industry's challenges are also its opportunities. For venison, reliance on the hotel, restaurant, institution trade during the game season provides opportunity at retail and outside that game season. For velvet, reliance on the traditional Oriental Medicine trade means opportunity in other countries

and as a healthy food in Korea. But exploitation of these opportunities requires a sound basis for long-term success. As an industry, we need to concern ourselves with the areas that require further work and vigilance. There are many, but here are a couple I wish to raise:

Cost of doing business: If 'New Zealand Inc' is truly committed to economic transformation, costs to industry need to be better managed so that they do not result in burdens which make industries less competitive. The Treasury's Guidelines for Setting Charges in the Public Sector, despite being well meaning, do not result in users/payers being able to influence the quality, quantity and costs of outputs received from government. The guidelines need to be reviewed in the context of New Zealand's desire for economic transformation.

Marketing New Zealand velvet: During the period, Deer Industry New Zealand sparked a debate to determine whether the deer industry is selling its velvet in the most effective way possible. A group of producers picked up on the challenge and formed a working group, and PGG Wrightson Ltd showed commitment to the deer industry through engaging in discussions which would change its business. Despite being a work-in-progress, the project is tracking in the right direction to develop a new pool-based marketing option with stakeholder responsibility. As an industry, we must avoid complacency and

While deer producers' returns remained unacceptably low during the period, signs are positive for improvement. Following my first full year as Chairman, I am proud to present this report in the knowledge that Deer Industry New Zealand performed strongly.

continue to drive for change, no matter the current price of velvet.

Welfare: It appears that after year end, the deer industry's *Code of Welfare for Farmed Deer* will be the first pastoral industry code approved. It also appears that 'animal welfare' is much higher on the agenda in the European Union with discussions on animal welfare labelling. The industry must actively take up its code to ensure (and be seen to ensure) the welfare of New Zealand's farmed deer. The Code's minimum standards are a 'must' and the recommended best practices are standards to aspire to and achieve.

Animal identification and traceability: This was a controversial issue for the industry during the period. Most producers view animal identification and traceability as 'another unnecessary compliance cost' without added benefit beyond the current systems in place. We have to get past this and understand that the industry cannot rely on anyone else to manage our industry for us. Having basic animal identification and traceability greatly helped Canada when *Chronic Wasting Disease* was identified in its herd and it has built systems from there. We do not have to make it mandatory until we are ready. But we do need to be a positive part of the development of a system so that it suits us and is not forced on us.

DINZ BOARD AND EXECUTIVE

Warren Moyes retired during the period and John Spiers joined the Board. I thank Warren for his positive contribution over nine years of service and stewardship and I welcome John to the Board.

THE NEXT YEARS

Your Board has positioned Deer Industry New Zealand to operate effectively in a lower production environment for both venison and velvet so that market development can lead the industry's growth aspirations.

If the industry situation continues as it is, producers will return to profitability. But the industry will have, in effect, shrunk its way to profitability. This is unacceptable. To be a successful part of the New Zealand pastoral landscape, the deer industry must be growing based on increased market demand, and growing at a faster rate than competing land use options. That is what the industry venison and velvet strategies are about – achieving sustainable, profitable growth.

John Scurr
Chairman

BOARD OF DIRECTORS

APPOINTED BY THE NEW ZEALAND DEER FARMERS' ASSOCIATION



JOHN SCURR, Chairman (Wanaka, Otago)
Shareholder of PPCS Ltd and Velexco Ltd. Farms at Wanaka.



GRAHAM CARR (Geraldine, South Canterbury)
Director of Graham Carr (NZ) Ltd. Shareholder of Velexco Ltd and PPCS Ltd. Farms near Geraldine.



JEFFREY PEARSE (Waitohi, South Canterbury)
Shareholder of Velexco Ltd and Alliance Group Ltd. Chairman of Game Industry Research Trust. Farms near Temuka.



JOHN SPIERS (Waipukurau, Hawke's Bay)
Shareholder of Velexco Ltd. Producer representative on National Velveting Standards Body. Farms near Waipukurau.

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 Limited, Slink skins (Canterbury) Ltd, Supergrass Limited, Broadoak Limited, Global Technologies (NZ) Ltd, Richmond Limited, New Zealand Lamb Co Ltd, PPCS USA Inc, PPCS (UK) Ltd, B Brooks (Norwich) Ltd.



ANDREW DUNCAN (Auckland)
Director and Shareholder of Duncan and Company Ltd, Duncan Processors Ltd, HDF Holdings Ltd, Matawai Deer Ltd, Velvet Antler Developers Ltd. Shareholder of Otago Venison Ltd.



STUART NATRASS Deputy Chairman and Chairman, Audit Committee (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, Fonterra Co-Operative Group, Wool Industry Network. Shareholder of PPCS Ltd.

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



JOHN MACDONALD (Christchurch, Canterbury)
Shareholder of Canterbury Antler Ltd – a velvet and co-product processing exporter. Chairman of the Velvet Processors Association. Director of Cinema 3 Ltd, Bellbrook Investments Ltd, D4 Ltd.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

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



**MARK
O'CONNOR**

CHIEF EXECUTIVE'S REPORT

Venison production continued at high levels during the year ending 30 September 2006 as very difficult conditions for producers of both venison and velvet continued.

The consequences of sustained slaughter of capital stock will limit production in the future and the industry risks under-supplying customers. This would impact on market development activities and the industry's reputation with key customers. But importantly, the industry's position at year end 2006 is considerably stronger than at the same time in 2005. Venison production dropped slightly (3%) and shows signs of dropping further, production space opened up, key markets in the United States and Europe remain committed and enthusiastic consumers of venison, and market prices trended upwards from low levels. Velvet production was lower and New Zealand's position relative to its competitors improved.

Despite industry conditions, Deer Industry New Zealand and the industry have stuck to the task of market development for both venison and velvet through the industry strategies. As conditions improve, it is not a matter of starting again but, rather, capitalising on the ground work which is complete.

VENISON PROMOTION ACCELERATING

Deer Industry New Zealand and the industry launched a new venison campaign called 'Impress Your Guests' in Germany, which is the next step on from 'Sommerkampagne'. The campaign was

well received by trade. It aligns closely with their own businesses in terms of being flexible, promoting where New Zealand venison is available and at a time which suits the market. A reinvigorated Cervena programme made sound progress in the United States.

Seventy-three joint promotional campaigns with venison exporters and their partners took place. The work included advertising, venison tastings, trade show participation, new product development, securing new accounts and recipe and menu development. Positioning and promotion of venison has been designed to take into consideration lower production of venison while still following the objective of industry growth through higher market demand. See the venison section for detail.

VELVET INDUSTRY STRATEGY EXECUTION DELIVERING

A 'velvet as a healthy food' promotion at a top Korean hotel was an effective beginning to position New Zealand velvet as a healthy functional food in South Korea. Seven New Zealand velvet exporters were approved to export sliced velvet to Korea. Activity such as sponsorship of Team 'Powered by Velvet.org', use of velvet by a team at the Iditarod, and public relations activity all raised velvet's profile as a sports nutrition supplement. Product development assistance and joint

WHAT TO LOOK OUT FOR IN 2006-07

promotion resulted in nine velvet products being registered and available for sale in China. Velvet as a wound healing agent made progress, but has been slower than I would like.

PRODUCTIVITY STRATEGY

The purpose of the industry productivity strategy is to communicate key goals and how the industry will go about achieving those goals. As an industry, we must galvanise around the strategy with a sense of community, passion and purpose. Over the next five years, the industry must pick up the challenge to achieve a 10% improvement in both (1) the percentage of young deer born and being available for sale or used as quality capital stock, and (2) their growth performance. These are the key goals of the industry's research programme which focuses both on solutions and their adoption on farm.

NON-VELVET RESEARCH AND DEVELOPMENT

During the period, Deer Industry New Zealand and AgResearch reviewed how the industry manages and funds research projects. Deer Industry New Zealand decided to move away from calling for 'Expressions of Interest' to determine project funding. Instead, the industry will directly co-fund AgResearch's programme with the Foundation for Research, Science and Technology. This ensures that a set number of worthy goals (including productivity improvement and environmental matters) is chosen and research work will focus on those goals. This allows alignment of goals between the programmes and industry ownership of the entire programme.

STAFF

Deer Industry New Zealand welcomed new staff members during the period. Lindsay Fung filled a newly created position of Science Manager. He provides excellent service to

- Further German retail development – local promotions across Germany highlighting the availability and quality of farm raised New Zealand venison to build retail sales.
- Extension of the 'Impress Your Guests' promotions to other European markets to increase demand at retail and diversify markets for New Zealand venison.
- Ongoing promotion of the attributes of Cervena to professional chefs in the United States to build sales volumes.
- Joint promotion of the nutritional attributes of venison with European deer farming industries.
- Cervena sponsorship of high-profile New Zealand culinary events.
- Continuation of local media strategy, efficiently generating coverage for venison in New Zealand food publications.
- Continued support of individual companies' promotional initiatives to build demand for New Zealand venison.
- Continued development of New Zealand velvet as a healthy food ingredient in Korea.
- Promotion and market development of New Zealand velvet in China through joint promotion.
- Implementation of a pan industry effort to manage Johne's disease in New Zealand and continued development of Johne's Management Limited.
- Deer industry input into the Animal Health Board's strategy review and continued progress to eradicate bovine Tb in New Zealand.
- Progress on the range of issues velvet faces, including how New Zealand velvet is best marketed (*Velconz* initiative) and how New Zealand velvet is branded in the Korean market.
- Launch of four Focus Farms in 2007 (South and North Canterbury, Hawke's Bay, Central Plateau/upper North Island).
- Results and implications of 2006 industry survey on trends and intentions published.
- Department of Conservation fencing issue fairly resolved.
- Code of Welfare (Deer) enacted.
- DEERSelect development and inclusion of velvet antler; and further development of maternal traits. Elk/Wapiti inclusion in DEERSelect.

DEERResearch and Velvet Antler Research New Zealand Ltd (VARNZ), and bridges the gap between science providers and industry. Vanessa Crowley was appointed Velvet Marketing Services Manager and is quickly grasping the role and making it her own. Pam MacLeman is ably and efficiently performing the QA Administrator's role. The DINZ Executive has a keen desire to be strong contributors in the industry's success and has a sense of service to the industry they work for. I thank them for their hard work and dedication.

COMMITMENT

Statistics New Zealand calculated that there were 13% fewer deer farms in June 2005 than in June 2002. This reduction was expected given industry conditions. But, to quote the American Football Coach, Vince Lombardi, "It's not whether you get knocked down, it's whether you get back up". Deer Industry New Zealand is committed to those 87% of producers who have got back up over the past four years and believe in the future of the New Zealand deer industry. It is a bright future.



NEW ZEALAND VENISON: IMPRESSING GUESTS

A new campaign in Germany, 73 joint promotions, a reinvigorated Cervena programme and a raft of tactical initiatives continued to drive market-led growth for New Zealand farm-raised venison.

The New Zealand venison industry is over-reliant on a short selling period in a limited number of markets.

The New Zealand venison industry is working to better match supply with demand in order to reduce volatility and improve the long-term profitability of the industry.

What needs to be done:

1. Reduce reliance on a short consumption season;
2. Increase retail presence of New Zealand venison; and
3. Diversify markets to reduce reliance on traditional outlets.

DINZ steps taken:

- Established a new promotion programme to **build consumer recognition** of New Zealand venison and **increase sales at the shoulders** of the traditional venison consumption season;

- This promotion invested NZ\$400,000 in a new **retail promotion** programme with German distributors; and
- Supported over 70 projects with exporting companies and their partners to build new demand for New Zealand venison in alternative markets around the world.

The causes of the imbalances have been identified and solutions enacted to alleviate issues constraining the long-term profitability of the New Zealand venison industry. The agreed objectives are contained in the Venison Industry Strategic Intent 2004 to 2009. This strategy was developed collectively by the New Zealand deer industry after consultation with industry stakeholders. All the venison promotion activity undertaken by Deer Industry New Zealand is done with the objectives of the industry strategy in mind. Venison

processors and exporters focus on the overall industry objectives, as well as their own company strategies, when planning their individual activities.

ISSUE 1: SHORT CONSUMPTION SEASON.

Solution: Lengthen selling season.

Unless sales in October and November match supply, surplus stocks are carried through, largely remaining on the market until the next game season, and competing with new season arrivals from New Zealand. The New Zealand industry shares a common objective of increasing consumption in non-traditional times of year.

Actions to achieve this: Out-of-season promotions with retail groups; new product development to provide easier-to-use non-traditional cuts; chefs' workshops to introduce new ideas for preparing venison as a summer item.

VENISON INDUSTRY FIVE-YEAR STRATEGIC INTENT: YEAR TWO REPORT CARD

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:

| OBJECTIVES | ACTIONS | RESULTS |
|---|---|---|
| Build demand in new markets. | Companies, supported by DINZ promotional activities, increased exports to alternative markets in 2005. | The dramatic increase in total New Zealand venison production guaranteed the volume targets would be met. The challenge is now to hold the valuable customers in these new markets as supply falls and prices increase. |
| Promote consumption outside the game season. | Retail promotion in Germany focused on increasing appreciation of the qualities of New Zealand venison and pushing availability outward from the game season. Ongoing chef education to encourage innovative applications of New Zealand venison. | A new approach met with considerable agreement among German importers and is being implemented in retail outlets across the country. Chilled volumes exported to Europe were considerably higher than previous years. |
| Build awareness of New Zealand country of origin. | Continued support for New Zealand branding of retail items through the joint promotional funds. A new country-of-origin identifier for Northern European markets to highlight the availability of New Zealand venison. | Acceptance of a new country-of-origin identity to be used alongside individual brands for retail promotions. Application of New Zealand origin to new retail packs for distribution in several European countries. |

Case study: Deer Industry New Zealand worked closely with a distribution and retailing group in Germany to increase 12 month sales of New Zealand venison. The group has five large outlets and supplies restaurants across northern Germany. Deer Industry New Zealand provided chefs and a consultant butcher to work alongside store staff to promote New Zealand venison, and committed funds for out-of-season promotion through the company's retail and cash and carry business.

Results: Because of this work, venison is sold 12 months of the year by this company, with increasing volumes of chilled venison sold outside the normal 'game' season.

ISSUE 2: OVER-RELIANCE ON FOOD SERVICE TRADE, INHIBITING AWARENESS OF NEW ZEALAND VENISON.

Solution: Increase retail exposure.

The origin of an ingredient is often unimportant on a restaurant menu when the reputation of the chef is more important. This places the supplier at a disadvantage, without consumer demand for their product it can be easily replaced with a competitor's item. In order to reduce reliance on the commodity market, venison exporting companies have been forging retail supply contracts with European supermarket chains. This not only provides a direct link with the consumer, and so an avenue for the creation of consumer recognition for New Zealand venison, it also removes product from the commodity trade, thus better aligning supply and demand.

Activities undertaken to achieve objective:

- New Zealand processors packing retail packs in New Zealand for export to and placement directly on to German supermarket shelves; and



The stand in a German supermarket during an early season promotion – convincing shoppers to try New Zealand venison at a time they would not normally think of doing so. Activities such as these continued through the spring and early autumn, and resulted in more supermarkets stocking New Zealand venison 12 months of the year.

- Significant investment to highlight the availability of New Zealand venison when and where it was available through a new promotion programme in Germany.

Case study: 'Impress Your Guests'. At the end of 2005 a review of previous initiatives to increase retail penetration was undertaken and venison marketers recommended a change in tone to assist the achievement of the strategic objective. After working with exporters, importers and focus groups, a new programme was developed which concentrates on highlighting the benefits of New Zealand venison to an audience predisposed to be looking for quality venison.



One of the 500 strategically placed billboards which supported the promotion of New Zealand venison at retail outlets in Germany in the autumn.

Our target consumer is a house-proud home cook, who likes entertaining. She is not afraid to try new things, but also has an eye to doing the traditional things well. She is between 35 and 55 years old, has a high disposable income and likes to entertain. She seeks some reassurance that, when throwing a dinner party, her guests will leave admiring her culinary skill. Therefore, New Zealand venison provides the solution – use delicious, consistent, quality assured New Zealand venison and 'Impress Your Guests'.

During the year, this theme was developed into a series of advertising messages designed to be used in close proximity to retail outlets to improve awareness of New Zealand venison as a quality protein.

Results: Seven German importers committed to using 'Impress Your Guests' in retail promotions.

The 'Impress Your Guests' promotion programme assisted three importers in winning new retail accounts with chains that had not previously sold New Zealand venison.

ISSUE 3: TOO FEW MARKETS.

Solution: Geographical diversification.

While seeking the best returns, the New Zealand venison industry must be mindful of the risks of over-reliance on traditional markets.

Reliance on a limited number of markets has exposed the New Zealand industry to the risk of sudden changes in demand and consequent price shocks. Members of the New Zealand industry, with support from Deer Industry New Zealand, have been actively expanding demand for New Zealand venison in alternative markets to spread the risk of over-reliance on one market.

Case study: Cervena™ in the United States.

In 2005, venison marketing managers decided that the United States provided the best opportunity to increase sales of higher-value chilled venison and reduce reliance on Europe. Cervena remains an asset for the New Zealand industry, and as all major exporters are licensees to the Cervena programme, Deer Industry New Zealand committed NZ\$250,000 to reinvigorate the Cervena programme in North America. A collective strategy had been agreed among licensees, and Deer Industry New Zealand provided the resource to get a promotional programme working.

Deer Industry New Zealand organised a number of high-profile events to provide platforms to promote Cervena to the US restaurant industry. A new website was established to act as a source of information for chefs and consumers, with a directory of suppliers.

Results: The new website has received 50,000 hits since being launched in May

2006. Sales of Cervena in 2005–06 have increased by 10% since the introduction of the new programme. Importers and distributors in the United States are once again actively participating in a Cervena programme, and all Cervena licensees remain committed to the continued use and promotion of Cervena in the United States.



Chef Brad Farmerie from PUBLIC-NYC feeds members of the New York Giants American Football team at a lunch sponsored by Cervena. The lunch generated coverage on East Coast television stations, websites, and was used as an example of the excellent quality and nutritional value of Cervena venison by the team's nutritionist in further publications.

RESEARCH PROGRESS

Research expenditure in 2005–06 amounted to \$941,564 or 16% of total expenditure – a reduction of 3% compared with 2004–05. This was broken down as follows:

- Expenditure on **DEER**Research activities of \$560,166.
- Expenditure on **Velvet Antler Research New Zealand Ltd (VARNZ)** activities of \$381,398.
- A grant was made to the **Game Industry Research Trust** of \$1,400,000 for research in 2006–07.

GAME INDUSTRY RESEARCH TRUST

Trustees: Jeffrey Pearse (Chairman), Andrew Duncan and Stuart Natrass.

The Research Trust funded all research expenditure in 2005–06 that met the requirements of the Trust Deed.

VARNZ

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

This year, the Board concentrated on maintaining momentum in the wound-healing programme, following some obstacles encountered in 2004–05. Welfare and food safety research has also continued, and promising results were presented at various conferences, field days and farmer meetings.

This work is continuing and includes:

- **Wound healing** – repeat pre-clinical trials (efficacy), safety and composition of velvet extract, screening new bioactives for other uses and regulating velvet growth.
- **Welfare** – stag deaths (post xylazine, ongoing information gathering), operator practices associated with good ring blocks.
- **Food safety** – determining force required for tourniquets and ensuring a consistent tourniquet procedure and outcome (ie, minimal lignocaine levels in velvet).

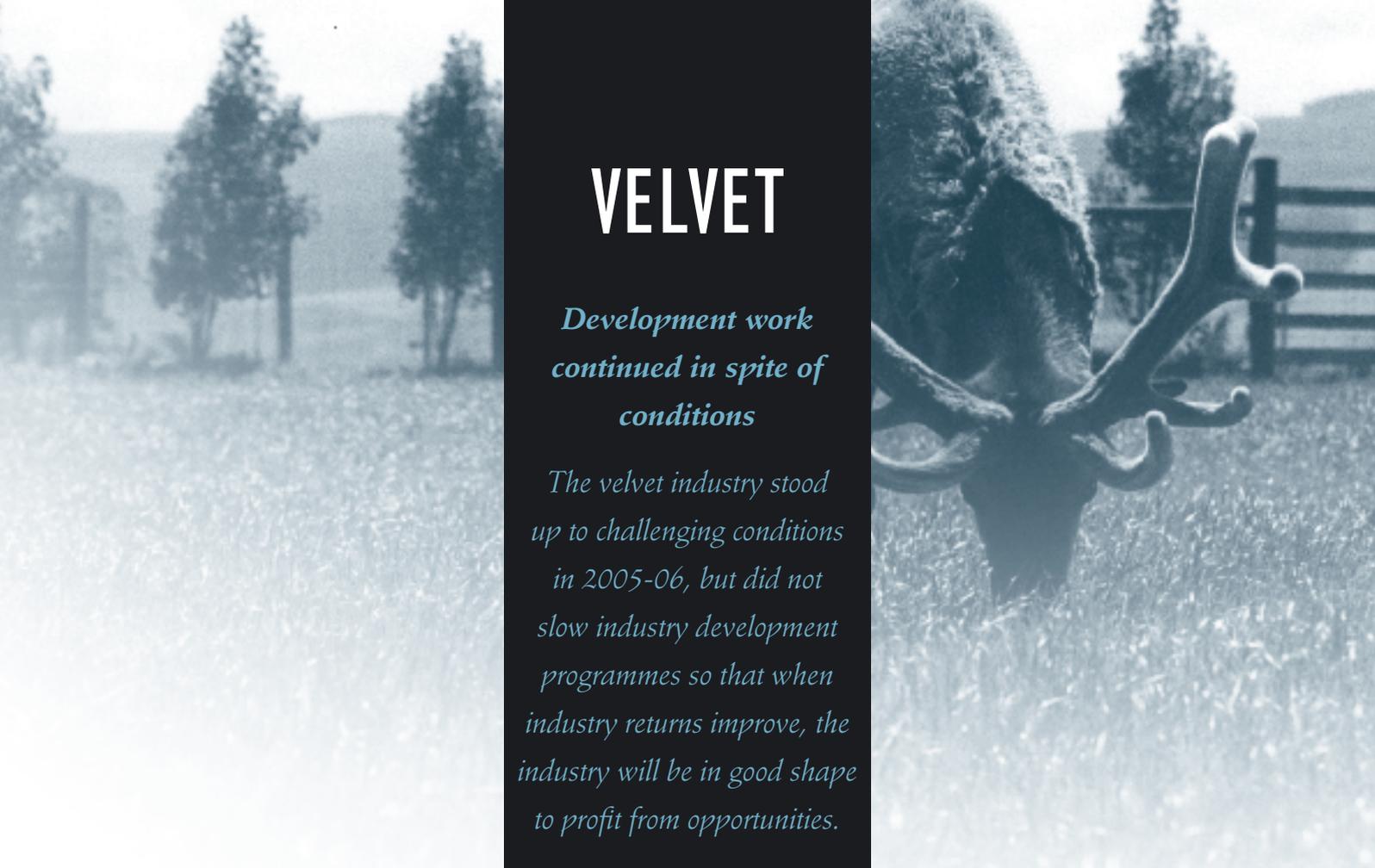
DEERESEARCH

Board: Collier Isaacs (Chairman), Graham Barrell (Universities), Noel Beatson (DFA), Peter Benfell (AgResearch), Bridgit Hawkins (AgResearch – retired 1 January 2006), Margot Buick (AgResearch – appointed 1 January 2006), Graeme Keeley (Venison Processors/Exporters), Mark O'Connor (GRH/DINZ).

A significant focus of the Board this year has been both reflective (aligning research and development spending with industry strategies) and forward looking as it positions itself to steer a new industry-led research programme commencing 1 October 2007.

Research funded by DEERResearch in 2005–06 included:

- **Deer Health** – leptospirosis management options, vaccination and hind-fawn transmission of Johne's disease.
- **Productivity** – nutritional limits to lactation yield, strategies to achieve early calving, control of gestation length, Pastoral Genomics consortium (improved ryegrass and clover).
- **Sustainability and the Environment** – Greenhouse Gas consortium (methane and nitrogen reduction), barriers to adoption of new land-management practices, stream recovery, use of OVERSEER (nutrient budgeting) for deer.
- **Market Access and Development** – acid washing to reduce 'blown pack'.



VELVET

Development work continued in spite of conditions

The velvet industry stood up to challenging conditions in 2005-06, but did not slow industry development programmes so that when industry returns improve, the industry will be in good shape to profit from opportunities.

Following several very challenging years of low velvet industry returns which saw some farmers change the direction and focus of their farming operations, the 2005-06 year continued in this negative vein. However, these difficult conditions only reinforced the importance of:

1. Continuing development of velvet business outside the traditional Korean Oriental Medicine market; and
2. Ensuring that the New Zealand velvet industry sells and markets its velvet to best effect.

There was good progress on both of these fronts and some areas which are proving tough challenges to overcome.

PRODUCTION AND EXPORTS

DINZ collected levy on 518 tonnes of frozen velvet which was a decrease of 5% in comparison to previous season's production of 548 tonnes. The weighted average pool price to producers for frozen velvet increased very marginally to \$47 from \$44 per kilogram. Export volumes declined by 14% to 224 tonnes

(dried equivalent, FOB, provisional) while the value of those exports dropped by 7% to approximately \$22 million.

HOW TO MARKET AND SELL NEW ZEALAND VELVET TO BEST EFFECT

The Deer Industry New Zealand Board sparked debate during the period by questioning whether the New Zealand velvet industry is maximising returns under the current selling arrangements. Deer Industry New Zealand ran a series of meetings around New Zealand to discuss the issue and possible changes. This resulted in a group of producers coming together under the working title of **Velconz**. They have engaged PGG Wrightson Ltd, as the largest seller of New Zealand velvet, in discussion to understand its position and preferences. They have further developed and tested the concept of more producer responsibility, and accountability to producers, for the sale of velvet. The concept involves significant change for industry and PGG Wrightson and therefore takes time, but good progress is being made.

SOUTH KOREA

In line with the industry's Five Year Velvet Strategy, Deer Industry New Zealand is introducing New Zealand deer velvet as a healthy ingredient in areas other than traditional medicine. Attendance at food shows, expositions, retention of specialist public relations assistance, promotional material development, trade advertising and a promotion at the five star Imperial Palace hotel in Seoul has given the industry a good start. Deer Industry New Zealand will continue to develop these initiatives with the New Zealand industry.

Confidence in Russian velvet was shaken during the period when media reports questioned the genetic composition of Russian velvet following the identification of Canadian deer genetics in Russian deer. Although not implicated, New Zealand velvet was affected by the consequential drop in confidence in deer velvet.

However, the situation has moved in New Zealand's favour as the Korean market began to recognise the benefit

of the New Zealand velvet industry's commitment to quality through its production systems, identification and traceability programme, processors' Risk Management Programmes, Government licensing and auditing of plants, and certification of individual velvet consignments. As one velvet importer said, "New Zealand's commitment to quality is finally beginning to pay off".

As reported last year, New Zealand was finally approved as a country from which sliced velvet could be exported. However it was not until 20 July 2006 that the Korean

Government advised that seven New Zealand exporters who had applied were approved by the Korean Food and Drug Administration to export sliced velvet to Korea. Disappointingly, this has not resulted in any exports to Korea of sliced velvet, but this will come in time.

Efforts to abolish the Special Excise Tax on deer velvet and therefore lower any benefit from trading unofficially continued. The New Zealand industry must continue to apply pressure through industry discussions with Korean Government officials, Government to Government discussions and support from

VELVET INDUSTRY FIVE-YEAR STRATEGY: YEAR TWO REPORT CARD

| OBJECTIVE | ACTIVITY | RESULT |
|---|--|--|
| New channels and New Zealand velvet products in South Korea | Promotion of velvet as a healthy food in a restaurant promotion. | Positioning of velvet as food in minds of Korean trade begun. |
| | Support of legislator to table bill for removal of luxury tax on velvet (SET). | Bill yet to be tabled – reportedly close. |
| | Further work to gain proper access for New Zealand sliced velvet. | Seven New Zealand exporters approved to export. They are yet to do so. |
| | Direct marketing and development of new materials for Oriental doctors. | Positioning New Zealand velvet as reliable, committed 'supplier of choice' reinforced and improved. |
| | Improved relationship with Korean Deer Breeders Association. | Stage is set for meaningful cooperation on joint issues. |
| New sales of New Zealand velvet in Taiwan | Reviewed year 1 activity to lift restrictive quota on frozen velvet. | Support of local distributors maintained for removal of the restrictive quota. |
| | Lobbying by New Zealand Government on behalf of industry. | Issue remains 'live' for the Taiwanese Government. |
| | Maintained and improved relationship with local importers. Begun efforts to gain support of local producers. | |
| New sales of New Zealand velvet in China | Argued for clearer market access conditions to China. | Protocol for the export of deer products, including velvet, signed by New Zealand and Chinese governments. |
| | Developed and encouraged velvet product registration and promotion. | Nine New Zealand velvet/co-product products registered in China. Promotional activities commenced. |
| Wound healing product derived from New Zealand velvet | Trial to show better quality of wound healing completed. | Trial successful. Other trials in development. |
| | Relationship with Australian institute begun. | Australian relationship should provide robust evaluation and feedback, and clinical expertise if required. |
| Athletic performance products derived from New Zealand velvet | Public relations activity in the United States. | Coverage in trade and sports nutritional publications. |
| | Joint promotion supported by industry resulted in deer velvet trialled by largest sports nutrition chain in United States. | Trial is in progress. |
| New product development opportunities for New Zealand deer velvet | Joint promotional support for velvet's use in companion animals. | Good level of sales in Israel, with plans for market development in other markets. |



Korean legislators sympathetic to New Zealand's position.

TAIWAN

The five tonne tariff rated quota imposed on imported deer velvet continues to prevent significant access to the important market of Taiwan. Despite a raft of activity in 2004-05, progress has been difficult. Advisors indicate that the Taiwan Government's position is entrenched and, in their view, defensible. Deer Industry New Zealand continues to rally the support of Taiwanese velvet importers and retailers of traditional medicines while the New Zealand Government has raised the issue in a wide variety of forums both in Taiwan and internationally. Deer Industry New Zealand continues to seek better relationships with the Taiwan Deer Farmers' Association.

PEOPLE'S REPUBLIC OF CHINA

Access conditions for New Zealand velvet to China were significantly improved during the period with the signing of a bilateral trade protocol for deer products between New Zealand and China on 6 April 2006. This provides formal access to China for venison, deer co-products and velvet.

Deer Industry New Zealand identified and facilitated introductions of a Chinese company to New Zealand velvet product marketers. This resulted in the company successfully registering approximately nine velvet/co-product products from three New Zealand companies and offering them for sale through 100 retail outlets in China. The company wishes to expand distribution and is implementing an initial marketing campaign.

WESTERN MARKETS AND OTHER OPPORTUNITIES

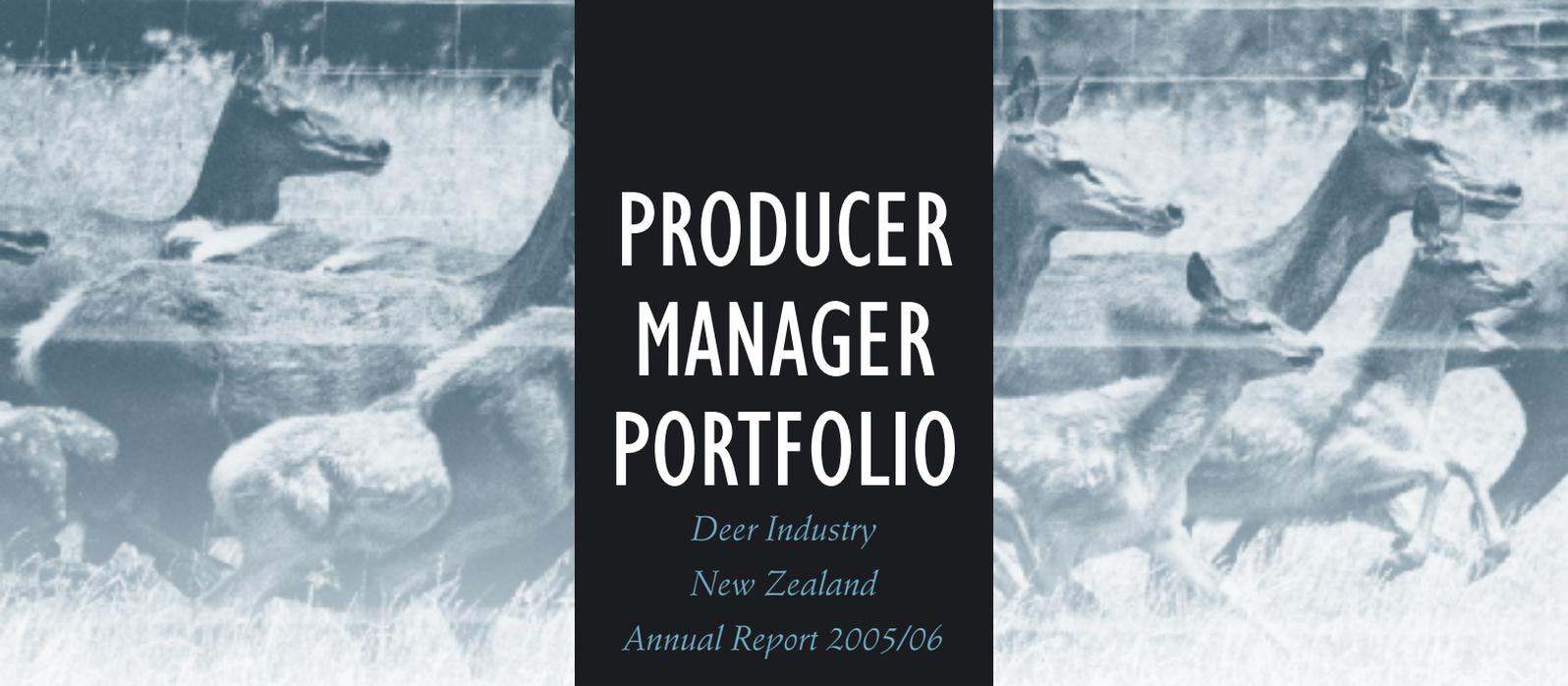
In the United States, joint promotion in the sports nutrition market has gained further traction with velvet's trial entry on to the shelves of the largest sports nutrition retailer in the country.

The powered by velvet.org.nz team put velvet on the radar within the endurance sports field during the 2005-06 season with all their promotional gear, word of mouth within the sport, and the website. Their success and positive view of velvet as an endurance sport supplement was cemented by their higher than expected placing at several international races. Velvet also featured in another endurance race - the Iditarod Trail Sled Dog race in Alaska, where velvet was included as a trial in the diet of one of the teams. The team finished well and the company responsible is considering product development of a velvet infused dog food.

Another pet orientated joint promotion occurred in Israel. A velvet product currently used as a supplement for healthy joint function in pets continues to gain market share.

WOUND HEALING...CONTINUES

VARNZ – the industry partnership with AgResearch continues to lead development of a wound healing product. The development of these products is not 'linear' – there are steps forward, backward and sideways. Following some backward and sideways steps, the project is making some good ground. Deer Industry New Zealand committed its support until September 2007 by which time it expects significant progress to have been made.



PRODUCER MANAGER PORTFOLIO

Deer Industry

New Zealand

Annual Report 2005/06

Representation: A condensed, no frills, 1-day conference was held as a combined DINZ Formal General Meeting and New Zealand Deer Farmers Association (DFA) AGM in Christchurch in May. The deer industry welcomed Minister of Agriculture, Jim Anderton as guest to the Awards Dinner and has continued to have good access and dialogue with him on a number of fronts. The DINZ Board also committed to a full afternoon and evening session with the Branch Chairmen at their November meeting, and has established this as a part of the annual programme. It promotes full, open and wide ranging discussion.

The Producer Manager also facilitated the activities of various DFA working groups, including the Selection and Appointments Panel and Executive Committee as a priority. In addition, there were several targeted working groups including Regional Animal Health Committee representation that spent a full day with the AHB Executive, a DEEResearch working and feedback group, the DEERselect Steering Committee, and the Productivity Group. These initiatives have had a successful year, targeting specific issues with the skills of passionate people and have a respected and strong dialogue with the various organisations and DINZ.

Communications and support at branch level continued to be a major part of the portfolio, especially with the current level of activity in the Johne's Research Group area, the Otago and Southland

focus farms, and the DFA Branch and national velvet competitions.

Productivity strategy: Developing this strategy was a major focus during the year. A wide representation of leading farmers, researchers, executive and DFA and DINZ Board members advanced the productivity strategy development through a planning and workshop phase in mid 2006.

Underpinning the objectives of the agreed venison strategic intent, it establishes two basic outcomes:

1. More calves conceived/born earlier and surviving to sale; and
2. Heavier prime animals supplied earlier in the season.

Productivity targets include a 2% annual increase in survival to sale over the next 5 years and a 2.5% increase in annual animal growth rates.

The industry-led research programme contributes many components of the applied research required for productivity improvements. Emphasis is on both genotype advantages in growth and seasonality. These are underpinned by the industry's DEERselect genetic evaluation programme and aspects of seasonal nutrition, particularly emphasising lactation and autumn pasture management. The potential of new pasture, legume and herb cultivars adds to achieving the potential for growth, and providing flexibility in venison production.

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

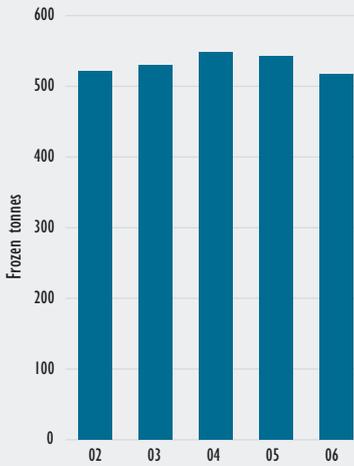
Communications: the deer industry also recognised that productivity improvements are best illustrated in clear, practical situations and initiated four more focus farms, based on the Meat and Wool New Zealand monitor farm model, to inspire technology uplift and practical feedback from farmers and researchers alike. The Board has agreed to offer seed funding for these four project farms to be established in the next 12 months. This activity promises to underpin a resurgence of interest in DFA Branch activities and open new avenues for technology transfer and communication, well supported by the format and scope of *Deer Industry News*.

The Producer Manager also presented a comprehensive review of the current industry structures and producer-centred projects and basis of industry quality systems, welfare codes, NVSB programme and the productivity and DEERselect outlines at the World Deer Farming Congress in Melbourne in April 2006.

INDUSTRY STATISTICS

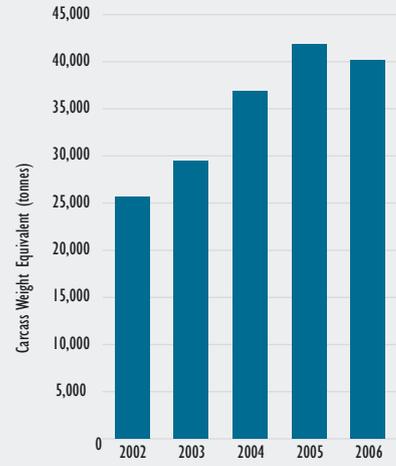
A snapshot of the New Zealand deer industry from 1 October 2005 to 30 September 2006.

VELVET PRODUCTION



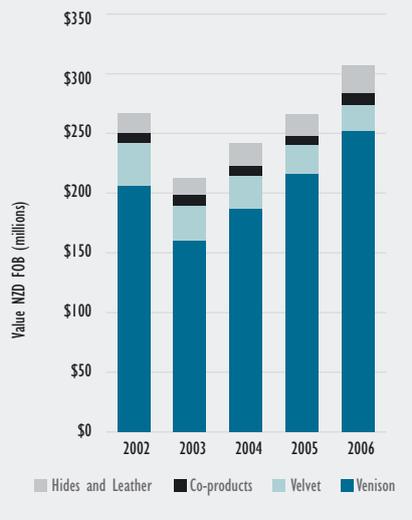
Velvet production decreased by 5% in 2005-06 in comparison to 2004-05. This was a direct result of uneconomic returns from velvet. A survey of producers during the period indicated that producers planned to further lower velvet production.

VENISON PRODUCTION

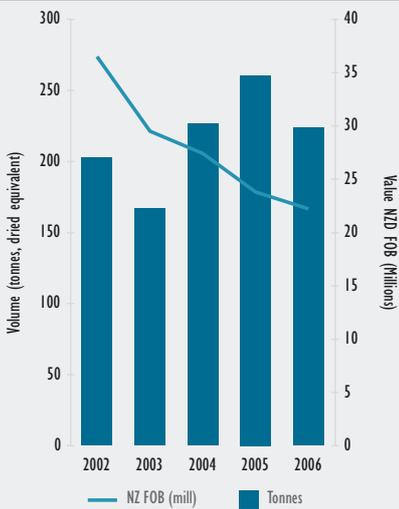


Venison production fell 4% from the 2004-05 peak of to 40,000 tonnes (carcass weight equivalent) in 2005-06. A total of 736,000 animals were processed during the year. Hinds continued to be removed from the national herd. This indicates a reduction in the industry's productive capacity in the immediate years ahead.

TOTAL EXPORT EARNINGS

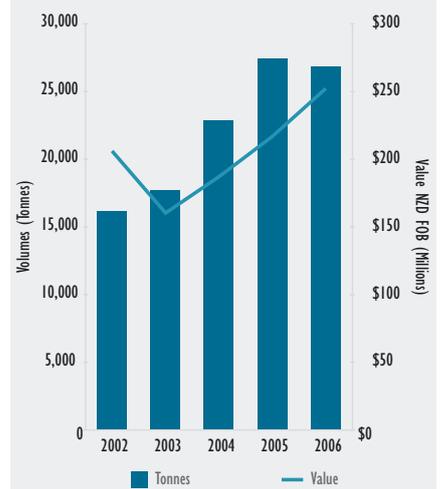


VELVET EXPORTS



Velvet exports declined in value in 2005-06 to \$22 million (2004-05; \$24 million) due to slightly lower exports (224 from 260) and lower per kilogram export returns.

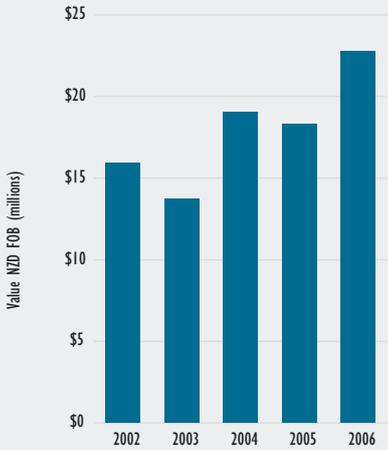
VENISON EXPORTS



The value of venison exports reached an all time high in 2005-06 of \$252 million, an increase of 16% over 2004-05, on falling volumes.

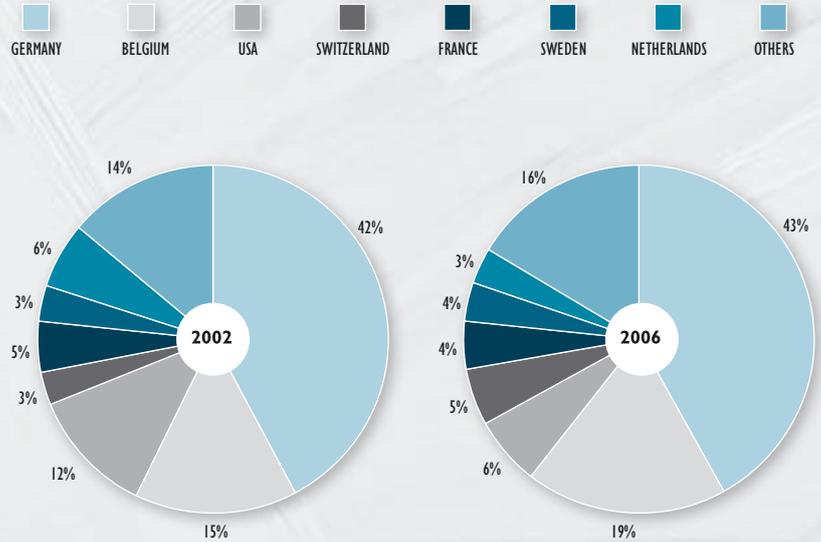
Improvements in market prices and a softening of the NZ dollar against the Euro helped increase returns to New Zealand. Volumes declined slightly to 26,860 tonnes, down 2% on the record high in 2004-05.

HIDES AND LEATHER



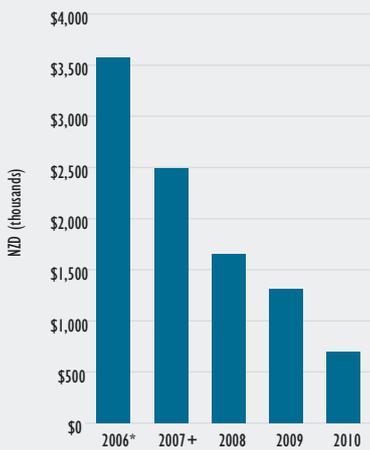
Total sales of hides and leather increased by 24% to \$23 million.

VENISON EXPORT VOLUME BY MARKET



Since 2002 the proportion of New Zealand venison exports going to Germany has remained stable at slightly over 40%. However the volume of total exports has increased greatly. Belgium and the Netherlands remain important entry points for large volumes of New Zealand venison into the European Union, while alternative markets in Scandinavia and North America have taken increased volumes of venison.

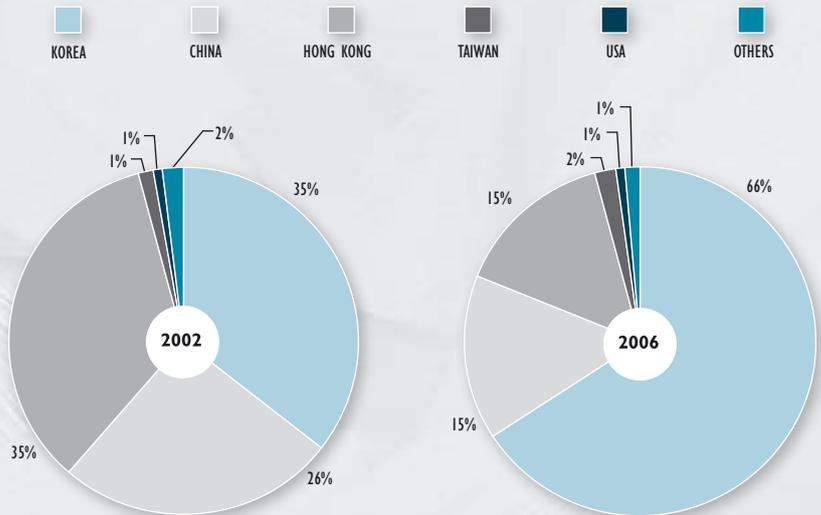
DINZ GROUP RESERVES



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

* Actual + Budget

VELVET EXPORTS BY MARKET



The Republic of Korea accounted for 66% of direct velvet imports, up from 35% in 2002. This reflects a higher proportion of frozen New Zealand velvet being exported directly to Korea. Deer Industry New Zealand estimates that 80% of New Zealand velvet is consumed in Korea.

AUDIT REPORT

TO THE READERS OF DEER INDUSTRY NEW ZEALAND AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

The Auditor-General is the auditor of Deer Industry New Zealand and Group. The Auditor-General has appointed me, Michael 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 2006.

Unqualified Opinion

In our opinion:

- the financial statements of Deer Industry New Zealand and Group on pages 17 to 25:
 - 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 2006; and
 - the results of their operations and cash flows for the year ended on that date.
- Based on our examination Deer Industry New Zealand kept proper accounting records.

The audit was completed on 22 November 2006, and is the date at which our opinion is expressed.

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

Basis of Opinion

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

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

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

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

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;

- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

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

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of Deer Industry New Zealand and Group as at 30 September 2006. 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.



Michael Wilkes

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

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 September 2006

| | Notes | Consolidated 2006 \$ | Consolidated 2005 \$ | Parent 2006 \$ | Parent 2005 \$ |
|--|-------|----------------------------|----------------------------|----------------------|----------------------|
| INCOME | | | | | |
| Levy Income Venison | 2 | 4,808,597 | 5,009,902 | 4,808,597 | 5,009,902 |
| Levy Income Velvet | | 1,401,964 | 1,917,284 | 1,401,964 | 1,917,284 |
| Interest Received | 2 | 336,086 | 248,705 | 225,673 | 194,808 |
| Foreign Currency Gain | | 63,874 | - | 63,874 | - |
| Other Income | | 186,213 | 199,948 | 186,213 | 199,948 |
| Animal Health Board Levy Received | 3 | 2,801,197 | 2,931,068 | 2,801,197 | 2,931,068 |
| TOTAL INCOME | | 9,597,931 | 10,306,907 | 9,487,518 | 10,253,010 |
| INVESTMENT EXPENDITURE | | | | | |
| Research Investment | 12 | 1,009,516 | 1,263,627 | 1,467,952 | 2,113,590 |
| Venison Promotion Investment | | | | | |
| Generic Promotion | | 1,262,459 | 1,537,779 | 1,262,459 | 1,537,779 |
| Joint Promotion | | 845,775 | 962,084 | 845,775 | 962,084 |
| Total Venison Promotion Investment | | 2,108,234 | 2,499,863 | 2,108,234 | 2,499,863 |
| Velvet Investment | | | | | |
| Promotion | | 638,572 | 471,786 | 638,572 | 471,786 |
| Velvet Removal | | 361,777 | 384,820 | 361,777 | 384,820 |
| Total Velvet Investment | | 1,000,349 | 856,606 | 1,000,349 | 856,606 |
| OPERATING EXPENDITURE | | | | | |
| Communications | | 322,122 | 393,569 | 322,122 | 393,569 |
| Quality Assurance | | 207,783 | 205,116 | 207,783 | 205,116 |
| Producer Management | | 284,187 | 195,801 | 284,187 | 195,801 |
| OTHER | | | | | |
| Audit Fees | 4 | 23,800 | 25,305 | 23,800 | 25,305 |
| Depreciation | 6 | 41,963 | 54,406 | 41,963 | 54,406 |
| Board and Directors' Fees and Expenses | 9 | 228,108 | 231,200 | 214,369 | 219,179 |
| Foreign Currency Loss | | - | 2,072 | - | 2,072 |
| Insurance | | 182,294 | 195,685 | 182,294 | 195,685 |
| Other Fees Paid to Auditors | | 26,612 | 5,400 | 26,612 | 5,400 |
| Bad Debts | | 2,450 | - | 2,450 | - |
| Other Operating Expenses | | 282,332 | 365,751 | 262,001 | 322,051 |
| Premises Rental and Costs | | 68,439 | 66,715 | 68,439 | 66,715 |
| Grant To Cervena Trust Limited | | - | - | 30,760 | 55,592 |
| Total Other Expenditure | | 855,998 | 946,534 | 852,688 | 946,405 |
| Animal Health Board Levy Paid | 3 | 3,723,222 | 2,037,762 | 3,723,222 | 2,037,762 |
| TOTAL EXPENDITURE | | 9,511,411 | 8,398,878 | 9,966,537 | 9,248,712 |
| Net Surplus/(Deficit) Before Taxation | | 86,520 | 1,908,029 | (479,019) | 1,004,298 |
| Taxation | 5 | - | - | - | - |
| Net Surplus/(Deficit) After Taxation | | 86,520 | 1,908,029 | (479,019) | 1,004,298 |
| Surplus Attributable to: | | | | | |
| Deer Industry New Zealand Levy Payers | | 474,701 | 141,363 | 443,006 | 110,992 |
| Game Industry Research Trust | | 533,844 | 873,360 | - | - |
| Animal Health Board Levies | | (922,025) | 893,306 | (922,025) | 893,306 |
| | | 86,520 | 1,908,029 | (479,019) | 1,004,298 |

STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS

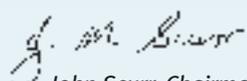
for the year ended 30 September 2006

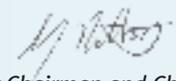
| | Notes | Consolidated 2006 \$ | Consolidated 2005 \$ | Parent 2006 \$ | Parent 2005 \$ |
|--------------------------------------|-------|----------------------------|----------------------------|----------------------|----------------------|
| Opening Accumulated Funds | | 3,488,880 | 1,580,851 | 1,705,365 | 701,067 |
| Net Group Surplus/(Deficit) | | 86,520 | 1,908,029 | (479,019) | 1,004,298 |
| Total Recognised Gains and Losses | | 86,520 | 1,908,029 | (479,019) | 1,004,298 |
| CLOSING ACCUMULATED FUNDS | | 3,575,400 | 3,488,880 | 1,226,346 | 1,705,365 |
| Closing Accumulated Funds relate to: | | | | | |
| Deer Industry New Zealand | 10 | 1,742,826 | 1,268,125 | 1,226,346 | 783,340 |
| Animal Health Board | 10 | - | 922,025 | - | 922,025 |
| Game Industry Research Trust | 10 | 1,832,574 | 1,298,730 | - | - |
| | | 3,575,400 | 3,488,880 | 1,226,346 | 1,705,365 |

STATEMENT OF FINANCIAL POSITION

for the year ended 30 September 2006

| | Notes | Consolidated 2006 \$ | Consolidated 2005 \$ | Parent 2006 \$ | Parent 2005 \$ |
|--|-------|----------------------------|----------------------------|----------------------|----------------------|
| Accumulated Funds | 10 | 3,575,400 | 3,488,880 | 1,226,346 | 1,705,365 |
| <i>Represented By:</i> | | | | | |
| Current Assets | | | | | |
| Short Term Bank Deposits | | 4,329,832 | 4,400,798 | 1,718,874 | 2,572,040 |
| Accounts Receivable | | 974,015 | 991,179 | 961,851 | 986,202 |
| Prepayments | | 4,133 | - | 4,133 | - |
| Intercompany Account Cervena Trust | | 5,781 | 8,889 | - | - |
| Intercompany Account VARNZ Ltd | | 5,131 | - | - | - |
| Intercompany Account DEEResearch Ltd | | 21,596 | - | - | - |
| Intercompany Account Cervena Company Limited | | - | - | (100) | (100) |
| Intercompany Account Group Research Holdings Ltd | | - | - | 26,657 | - |
| Total Current Assets | | 5,340,488 | 5,400,866 | 2,711,415 | 3,558,142 |
| Less Current Liabilities | | | | | |
| Accounts Payable | | 1,262,530 | 682,048 | 813,309 | 467,885 |
| Accruals | | 501,603 | 926,240 | 501,604 | 926,240 |
| Employee Entitlements | | 59,723 | 56,866 | 59,723 | 56,866 |
| Intercompany Account Group Research Holdings Ltd | | - | - | - | 334,200 |
| Intercompany Account Research Trust | | - | - | 169,471 | 155,154 |
| Intercompany Account DEEResearch Ltd | | - | 17,395 | - | - |
| Intercompany Account VARNZ Ltd | | - | 316,735 | - | - |
| Total Current Liabilities | | 1,823,856 | 1,999,284 | 1,544,107 | 1,940,345 |
| Non Current Assets | | | | | |
| Fixed Assets | 6 | 58,738 | 87,268 | 58,738 | 87,268 |
| Investment in Subsidiaries / Associates | | 30 | 30 | 300 | 300 |
| Total Non Current Assets | | 58,768 | 87,298 | 59,038 | 87,568 |
| NET ASSETS | | 3,575,400 | 3,488,880 | 1,226,346 | 1,705,365 |


John Scurr, Chairman
22 November 2006


Stuart Natrass, Deputy Chairman and Chairman, Audit Committee
22 November 2006

STATEMENT OF CASHFLOWS

for the year ended 30 September 2006

| | Consolidated 2006 \$ | Consolidated 2005 \$ | Parent 2006 \$ | Parent 2005 \$ |
|--|----------------------------|----------------------------|----------------------|----------------------|
| Cashflows from Operating Activities | | | | |
| Cash was provided from: | | | | |
| Venison, Velvet and Animal Health Board Levies | 9,055,888 | 9,658,207 | 9,055,888 | 9,658,207 |
| Interest Received | 328,900 | 245,572 | 205,895 | 194,808 |
| Other Operating Income | 186,213 | 199,948 | 186,213 | 199,948 |
| | 9,571,001 | 10,103,727 | 9,447,996 | 10,052,963 |
| Cash was applied to : | | | | |
| Payments to Suppliers and Employees | 9,692,408 | 8,214,734 | 10,351,603 | 9,127,496 |
| | 9,692,408 | 8,214,734 | 10,351,603 | 9,127,496 |
| Net Cashflows from Operating Activities | (121,407) | 1,888,993 | (903,607) | 925,467 |
| Cashflows from Investing Activities | | | | |
| Cash was applied to : | | | | |
| Purchase of Fixed Assets | 13,433 | 25,209 | 13,433 | 25,209 |
| Net Cashflows from Investing Activities | (13,433) | (25,209) | (13,433) | (25,209) |
| Net (Decrease)/Increase in Cash Held | (134,840) | 1,863,784 | (917,040) | 900,258 |
| Opening Cash Balance | 4,400,798 | 2,539,086 | 2,572,040 | 1,673,854 |
| Effect of exchange rate change on foreign currency balances | 63,874 | (2,072) | 63,874 | (2,072) |
| Closing Cash Balance | 4,329,832 | 4,400,798 | 1,718,874 | 2,572,040 |
| Reconciliation of Net Surplus/(Deficit) After Tax With Operating Activities | | | | |
| Reported (Deficit)/Surplus | 86,520 | 1,908,029 | (479,019) | 1,004,298 |
| Add: | | | | |
| Non Cash Items | | | | |
| Depreciation | 41,963 | 54,406 | 41,963 | 54,406 |
| Foreign Currency (Gain) / Loss | (63,874) | 2,072 | (63,874) | 2,072 |
| | (21,911) | 56,478 | (21,911) | 56,478 |
| Movement in working capital | | | | |
| Accounts Receivable | 17,162 | (201,869) | 24,350 | (200,047) |
| Prepayments | (4,133) | 19,879 | (4,133) | 19,879 |
| Accounts Payable | 580,482 | 45,066 | 345,424 | (122,986) |
| Accruals | (424,636) | 70,257 | (424,636) | 70,257 |
| Employee Entitlements | 2,857 | 1,055 | 2,857 | 1,055 |
| Subsidiary and Associates Receivables / Payables | (357,748) | (9,902) | (360,856) | (58,621) |
| Game Industry Research Trust | - | - | 14,317 | 155,154 |
| | (186,016) | (75,514) | (402,677) | (135,309) |
| NET CASHFLOWS FROM OPERATING ACTIVITIES | (121,407) | 1,888,993 | (903,607) | 925,467 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 September 2006

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 2006

- **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 2006.

- **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 2006:

- **Cervena Trust**

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

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

- **Velvet Antler Research New Zealand Limited (VARNZ)**

VARNZ is a joint venture company between the New Zealand deer industry (through Group Research Holdings Limited) and AgResearch Limited, which undertakes research into velvet antler. Payments by the Group to VARNZ are accounted for as research or administration expenditure.

VARNZ Limited has a 30 September balance date.

- **DEEResearch Limited**

DEEResearch Limited is a joint venture company, whose shareholders are AgResearch Limited (50%), Group Research Holdings Limited (25%) and the New Zealand Deer Farmers' Association (25%). The objectives of the company are to research non-velvet related deer products. Payments by the Group to DEEResearch Limited are accounted for as research or administration expenditure.

DEEResearch Limited has a 30 June balance date.

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.

GST

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

Income Tax

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

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

Foreign Currencies

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

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 minimum monthly payments based on the annual contribution agreed with the AHB. During the financial year Deer Industry New Zealand executed a Deed of Amendment and Restatement with the Animal Health Board requiring all excess of levy funds collected by Deer Industry New Zealand to be remitted to the Animal Health Board.

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

At the end of the 2005 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. This surplus has been remitted to the Animal Health Board under the amended agreement. 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:

| | 2006 | 2005 |
|-------------------------------------|----------|----------|
| Audit of Deer Industry New Zealand: | \$20,600 | \$22,105 |
| Audit of other Group entities: | \$3,200 | \$3,200 |

5. TAXATION

| | Consolidated 2006 \$ | Consolidated 2005 \$ | Parent 2006 \$ | Parent 2005 \$ |
|---|----------------------------|----------------------------|----------------------|----------------------|
| Net (Deficit)/Surplus/ Before Tax | 86,520 | 1,908,029 | (479,019) | 1,004,298 |
| Permanent Differences | (533,844) | (849,121) | 2,242 | 24,239 |
| | (447,324) | 1,058,908 | (476,777) | 1,028,537 |
| Tax @ 33% | 147,617 | 349,440 | 157,336 | 339,417 |
| Deferred Tax Asset not Previously Recognised | (147,617) | (349,440) | (157,336) | (339,417) |
| Income Tax Charge as per Statement of Financial Performance | - | - | - | - |

| Imputation Credits | Consolidated 2006 \$ | Consolidated 2005 \$ | Parent 2006 \$ | Parent 2005 \$ |
|-------------------------------|----------------------------|----------------------------|----------------------|----------------------|
| Opening Balance | 1,145,097 | 1,145,096 | 500,749 | 500,749 |
| Resident Withholding Tax Paid | 2 | 1 | - | - |
| Closing Balance | 1,145,099 | 1,145,097 | 500,749 | 500,749 |

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

The Group has income tax losses of \$333,351 (2005: \$56,885) 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 2006 | NBV 2005 | Depreciation 2006 | Depreciation 2005 |
|----------------------|----------------|-----------------------------|---------------|---------------|----------------------|----------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Furniture & Fittings | 71,389 | 44,458 | 26,931 | 38,984 | 12,363 | 12,369 |
| Computer Equipment | 137,019 | 106,001 | 31,018 | 46,872 | 28,796 | 40,970 |
| Office Equipment | 7,012 | 6,222 | 790 | 1,412 | 804 | 1,067 |
| | 215,420 | 156,681 | 58,738 | 87,268 | 41,963 | 54,406 |

7. SEGMENTAL REPORTING

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

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

8. FINANCIAL INSTRUMENTS

Nature and Extent

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

Fair Value

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

Credit Risk

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

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

Interest Rate and Currency Risk

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

At balance date, foreign currency deposits totalled \$53,322 (2005: \$3,013). The notional or principal contract amounts of foreign exchange instruments at balance date for the parent and group were for forward exchange contracts of \$812,132 (2005: \$927,772). The unrealised gain on these contracts at balance date is \$12,996 (2005: \$4,350). 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 2006 year total for Deer Industry New Zealand is \$214,369 (2005: \$219,179). This comprises \$162,500 in Board fees (2005: \$162,500), and \$51,869 in travel and accommodation expenses (2005: \$45,179).

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

- Mr Warren Moyes resigned from the Board on 30 June 2006 and was replaced on 1 July 2006 by Mr John Spiers;

Cervena Company Limited

There were no director fees or travel expenses paid.

Cervena Trust Limited

Directors' fees totalled \$12,000 for both financial years. Trustees Mr David Wright, Mr James Guild and Mr John Upton received fees of \$4,000 each in the current financial year. Travel expenses were \$1,739 (2005: \$21).

10. ACCUMULATED FUNDS

The accumulated funds of the Group are \$3,575,400 (2005: \$3,488,880), of which \$1,832,574 (2005: \$1,298,730) 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.

During the financial year \$922,025 held in Reserve for the Animal Health Board at 30 September 2005 was paid to the Board. The Animal Health Board Reserve represents levies collected in excess of the annual funding arrangements.

Deer Industry New Zealand

| | 2006 | 2005 |
|---|------------------|------------------|
| | \$ | \$ |
| Opening Balance | 1,268,125 | 1,155,481 |
| Surplus attributable to Deer Industry New Zealand | 474,701 | 141,363 |
| Transfer to Animal Health Board Reserve | - | (28,719) |
| Closing Balance | 1,742,826 | 1,268,125 |

Game Industry Research Trust

| | 2006 | 2005 |
|--|------------------|------------------|
| | \$ | \$ |
| Opening Balance | 1,298,730 | 425,370 |
| Surplus attributable to Game Industry Research Trust | 533,844 | 873,360 |
| Closing Balance | 1,832,574 | 1,298,730 |

Animal Health Board Reserve

| | 2006 | 2005 |
|--|-----------|----------------|
| | \$ | \$ |
| Opening Balance | 922,025 | – |
| Accumulated Balance Transferred from Deer Industry | – | 28,719 |
| New Zealand Accumulated Funds | | |
| Net Levies AHB Levies Received/(Payments) | (922,025) | 893,306 |
| Closing Balance | – | 922,025 |

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 |
| \$180,000 - \$189,999 | 1 |

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 2006: (\$14,159) (2005: \$733,890) and DEEResearch Limited 2006: (\$4,090) (2005: \$97,020). The credits in the 2006 financial year arose from the reversal of accruals where project milestones were not achieved. This funding is provided via Group Research Holdings Limited.

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

Deer Industry New Zealand provided a research grant to the Game Industry Research Trust of \$1,400,000 (2005: \$1,197,000).

An operational grant of \$30,760 (2005: \$55,592) was provided from Deer Industry New Zealand to Cervena Trust Limited.

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

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

S Natrass received \$5,000 in fees in relation to non-DINZ work for Velconz.

13. COMMITMENTS

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

| | Parent & Consolidated | Parent & Consolidated |
|--|-----------------------|-----------------------|
| | 2006 | 2005 |
| | \$ | \$ |
| Not later than 1 year | 63,230 | 57,011 |
| Later than 1 year and not later than 2 years | 63,230 | 57,011 |
| Later than 2 years | 110,651 | 171,033 |

Commitments in respect of research contracts entered into by DEEResearch Limited subject to milestones being achieved are as follows:

| | 2006 | 2005 |
|--|---------|---------|
| | \$ | \$ |
| Not later than 1 year | 567,000 | 566,900 |
| Later than 1 year and not later than 2 years | 55,000 | 262,300 |
| Later than 2 years | 25,000 | 64,300 |

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

| | 2006 | 2005 |
|-----------------------|---------|---------|
| | \$ | \$ |
| Not later than 1 year | 503,000 | 510,000 |

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

| | 2006 | 2005 |
|--|-----------|-----------|
| | \$ | \$ |
| Not later than 1 year | 1,200,000 | 1,200,000 |
| Later than 1 year and not later than 2 years | 900,000 | 1,200,000 |
| Later than 2 years | - | 900,000 |

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 (1.0% holding). 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.

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

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

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

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

Financial Derivatives

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

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

| | POSITION | DIRECT LINE | MOBILE | EMAIL |
|-----------------|------------------------------------|---------------|----------------|----------------------------|
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| Lindsay Fung | Science Manager | (04) 471 6116 | (021) 556 925 | lindsay.fung@deernz.org |
| Pam MacLeman | Systems Administrator | (04) 471 6114 | | pam.macleman@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 Pearce | Producer Manager | (04) 471 6118 | (021) 719 038 | tony.pearse@deernz.org |
| John Tacon | Quality Manager | (04) 471 6117 | (021) 242 2873 | john.tacon@deernz.org |

CONTRACTED SPECIALISTS

| | | | |
|----------------|---------------------------|---------------|---------------------------|
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| John Moynihan | Technical Consultant | | john.moynihan@xtra.co.nz |
| Ali Spencer | Communications Consultant | | spencerpr@paradise.net.nz |
| Sandra Windley | Finance Controller | (04) 474 0841 | sandra.windley@deernz.org |

WEBSITES

| | |
|----------------------|--|
| Corporate: | www.deernz.org |
| Non-velvet Research: | www.deerresearch.co.nz |
| Venison: | www.nzvenison.com |
| German Venison: | www.neuseelandhirsch.de |
| Cervena: | www.cervena.com |
| Velvet: | www.velvet.org.nz |

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