



AOTEAROA  
*fisheries limited*



# Interim Report

Four Months to 31 March 2005

05



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## Directors Report

The Directors of Aotearoa Fisheries Limited (AFL) are pleased to present the first interim report for the company to our shareholders. This report covers the four months to 31 March 2005. This is because the financial year of AFL runs from 1 October to 30 September each year and the company is required to produce interim accounts to 31 March each year. As the company was incorporated on 26 November 2004 the first report of AFL covers only four months and includes no comparative financial figures.

The unaudited net surplus for the four months ended 31 March 2005 was \$7.9m with sales revenues of \$34.5m and an operating cashflow of \$8.0m. This result included a gain of \$1.2m from the sale of surplus land assets and profits from our investment in Sealord Group Limited (Sealord) of \$7.1m.

The first four months of trading have been difficult with the negative impact of currency on the business earnings, the challenges of integrating a diverse group of businesses within AFL and the decline in returns from core fisheries, particularly the tuna fishery.

The business will continue to be challenged by the strong NZ dollar. The current levels of exchange rates are not sustainable in the medium to long term for businesses within the fishing industry who are reliant on export markets, without significant impacts on asset values and in particular quota values. The Directors are of the view that in many cases quota values are too high within the industry relative to the earnings they are capable of generating.

The returns that have been achieved by the core businesses of Moana Pacific Fisheries, Chatham Processing and Pacific Marine Farms have been at levels that are not acceptable to the board or to shareholders. Improving the financial returns in these areas is a high priority. Management and the board have focussed on increasing the returns from the assets received by AFL by improving efficiency, productivity and reducing costs. Investment in areas where key infrastructure has fallen behind the needs of the business has been required.

The board of AFL has determined that the value of capital contributed on establishment was \$287m. In addition to this, AFL received a liability of \$20m to the Treaty of Waitangi Fisheries Commission which has been repaid through the issue of redeemable preference shares (RPS) by a subsidiary of AFL. The RPS are now held by Te Ohu Kaimoana (Te Ohu). The RPS allow Te Ohu to access funds in the future should their financial position require it.

Total assets as at 31 March 2005 are \$369.9m with net bank debt of \$40.3m. The balance sheet is relatively strong. The company will continue to invest in areas of growth where suitable returns can be achieved.

The outlook for the six month period to 30 September is for difficult trading conditions to continue with the strong NZ dollar showing few signs of weakening significantly, our financial performance over the remainder of the year will largely be influenced by the performance of the lobster business.

## Company Establishment and Structure

AFL was incorporated under the Companies Act 1993 on 26 November 2004 as part of the implementation of the provisions of the Maori Fisheries Act 2004 (the Act). The Act provides a framework for the allocation and transfer of assets of the Maori Fisheries Settlement to Iwi and the central management of the remainder of those settlement assets. A key element of the allocation framework for the central management of those settlement assets specified was the establishment of AFL.

The transfer of assets to AFL took place on 29 November 2004. Within AFL the assets have been organised into three operating divisions (Inshore, Abalone and Aquaculture) together with the investments in Sealord and Prepared Foods Limited.

The company has a duty to manage its assets in a commercial manner. We will also use best endeavours to work cooperatively with Iwi on commercial matters. We have started the process of establishing and building commercial relationships with Iwi and this will continue to be a key activity. The vision for AFL is to be the investment vehicle of choice for Iwi in the fishing industry. To achieve this we need to deliver strong financial performance and maintain good mutually beneficial commercial relationships with our Iwi shareholders.

### Board of Aotearoa Fisheries Limited

The inaugural Directors of AFL are Rob McLeod, Chairman; Craig Ellison, Matanuku Mahuika, Craig Norgate and Keith Sutton. The first formal meeting of the board of AFL took place in Wellington on 1 December 2004.

### Business Planning

The AFL business plan for the 2004/5 year covers the company transition through two overlapping ownership arrangements. For the period from 1 October 2004 up to 29 November 2004 (the appointed day) the assets were managed by AFL Management Limited under the terms of a management agreement with the Treaty of Waitangi Fisheries Commission. Following the appointed day the assets came under the direct ownership, control and management of AFL.

The overriding vision driving the business plans of AFL is the creation of shareholder wealth which occurs when the net operating profit after attributable tax exceeds the average cost of capital committed to the business. With this in mind a range of cornerstone policies have been developed to shape the current and future business plans, these include:

- The implementation within AFL of a capital charge on the assets employed within the business resulting in a transparent analysis of divisional performance; and
- The establishment of an Iwi Relationships Policy that sets out the broad parameters for entering commercially sound arrangements.

## Key Issues

AFL is confronted with the following industry wide issues

### Property Rights

The erosion of property rights is a matter of concern and in particular actions that result in the dilution of individual transferable quota (ITQ) rights whether by regulation or by uncompensated expropriations. In this regard the company will vigorously resist any attempts to undermine the durability of the Fisheries Settlement by such actions.

The ultimate beneficial owners of AFL are Iwi. AFL cooperates with Iwi on commercial matters. AFL also supports Iwi organisations as a key mechanism by which Maori participate in fisheries. Iwi have both customary and commercial fishing interests which are best protected in the long run by reliable and integrated property rights.

### Industry Costs

A further issue requiring constant attention of AFL and the industry at large is the high cost of administering the fisheries sector. Improved accountability and transparency must be pursued to reduce costs and ensure better outputs and outcomes. This is no more evident than in the matter of compliance. The continued state of illegal harvesting of fish especially key Maori iconic species is unacceptable. A key component of the solution is for the Ministry of Fisheries (MFish) to achieve effective engagement with relevant industry groups that have property rights in these fisheries.

### Overcapitalisation of Quota

AFL is of the view that many quota and annual catch entitlement (ACE) values are difficult to sustain on the basis of current earnings. In these instances the values attributed reflect very high multiples of those earnings. As the company moves forward we will be focussing on how we optimise our portfolio of assets, debt and equity.

### Value of the Dollar

The strength of the NZ dollar against most of our trading partners has been a significant and prolonged challenge. While hedging and market strategies have assisted in managing short term volatility, inevitably the strength of the NZ dollar will feed through into lower returns. In the longer term we will focus on long-run efficiency by minimising costs and maximising revenues in both the local and offshore markets.

# Group Overview

## Sealord

Good sales and favourable market prices, coupled with very significant and ongoing internal cost control, have placed Sealord in a strong financial position and on track to achieve its planned net profit after tax target of \$30.2m for the financial year ending 30 June 2005. The impact of the high NZ dollar has largely been offset by hedging; debt and working capital have steadily reduced. By 31 March 2005 net working capital was 25% lower than at the same time the previous year and debt levels were 48% lower than they were at the same time in 2003/04.

This places the company in an excellent position to take advantage of growth opportunities and Sealord has recently restructured its senior management team to focus on increased returns through growth.

Over the past couple of years Sealord has anticipated the reduction in New Zealand hoki quota and steadily reduced its dependence on New Zealand caught species. In the first nine months of the 2004/05 year 50 percent of Sealord's revenue came from sales of purchased supply. Sealord's supply partnership in the UK with Waitrose, a large retail chain in the UK, has been a major area of growth in 2004/05 and Europacifico, the Spanish joint venture with Nissui and Friosur which officially came into effect on 1 October 2004 is performing well. The New Zealand retail business is another area producing good margins. Although Australian retail sales have been below plan this financial year, Sealord is committed to building solid partnerships in Australia.

The impact of the poor hoki fishing season for freezer trawlers was offset by good catches in the first quarter of 2005, including good squid and toothfish seasons, as well as reductions in the freezer fleet and the downsizing of Sealord's Dunedin processing plant, where staff numbers have reduced from about 200 to 80. Sealord bought a 50% share in the modern freezer trawler Paerangi, but reduced its freezer fleet to two, through the sale of the Aorere, and tying up the Aoraki. One-off costs in the March year to date results include the downsizing of Dunedin and the loss on sale and write down of book value of the factory vessels, Aorere and Aoraki.

Other gains include projects that have improved processing efficiency and an overhaul of Sealord's information systems which has improved the quality of service and information. Sealord won an organic export award for Sealord Greenshell Mussels grown and processed to Bio-Gro standards. There has also been significant overall improvement in Sealord's safety results, but this, unfortunately, was overshadowed by the tragic death of Hugh Hope, after an accident on Aoraki in 2004.

## AFL Operations

### Inshore

The Inshore division trading as Moana Pacific Fisheries (Moana) faced a particularly difficult trading environment. Initial progress has been made to reduce costs within this business and improving efficiency and returns will continue to be a high priority of management and the board. The returns from the inshore business assets received by AFL are not satisfactory. The Directors are committed to improving the returns from these businesses.

Within the Inshore division we have established a separate business unit for our rock lobster interests. David Shields has been appointed to the position of Manager of this business, David has been at the forefront of the development of the rock lobster business within the New Zealand industry and is seen by his industry peers as the leader of New Zealand's live lobster process and market development.

We continue to review our rock lobster and wetfish businesses and expect to make further changes to operating structures and improve the financial performance. The Directors have approved a significant investment in an integrated best practice computer information system which will assist the business to meet customer needs, enable us to improve efficiency and productivity and provide managers with the information and tools to better manage the business.

AFL has acquired a cornerstone position within the eel fishery through the purchase of the Thomas Richard & Co business and a strategic alliance with the Levin Eel Trading Company. This has given AFL a significant share of the North Island eel fishery providing a strong base upon which to build a sustainable eel business. It also provides a foundation to work with Iwi in the management of this important fishery.

### Abalone (Paua)

Prepared Foods Limited (PFL) our marketing joint venture with Ocean Ranch (NZ) Limited continues to provide good returns on our investment.

The focus is to continue to be New Zealand's leading processor and international marketer of abalone.

Abalone process improvements have continued and this has produced significant gains. Several major technical projects are being planned for the year ahead. Work is also continuing in the processing and market development of abalone sourced from North Africa.

Relationships with long-term suppliers and customers remain strong and are a major reason for continued success.

Prices in the abalone market have remained firm in the recent Chinese New Year selling period and have meant that despite the continuing strength of the NZ dollar the financial returns from the abalone business are in line with expectations.

### Ration Pack Meals

We recently tendered for multi-year contracts to supply the Australian and British Military with pouched shelf-stable ration pack meals. The results of these tenders are expected by the middle of 2005. This business is a significant contributor to the Abalone division's financial performance.

The Directors have approved a significant capital investment at our Palmerston North factory to increase the production capacity to enable the business to continue the development of the military ration pack business.

## Aquaculture

Demand and prices for pacific oysters were generally softer in most of the Pacific Marine Farms (PMF) markets. Live oyster sales have been particularly affected by the high value of the NZ dollar and rising export freight costs.

Higher water temperatures have resulted in a late spat catch for this season and this has delayed re-seeding by six weeks, however this is not expected to affect overall production in the 2005/06 season.

Financial performance will continue to be influenced to a large extent by the strength of the NZ dollar. The strong NZ dollar has seen market share being lost in recent times to other low cost world producers. The current economic climate in the upper North Island together with the growth of mussel farming in this area has placed significant pressure on the labour markets for farm and processing staff.

## Key AFL Markets

### Domestic

Moana has continued to develop its domestic market programme. The domestic market has been a strong performer and has helped to mitigate the forex impacts of the strong NZ dollar. Domestic sales are planned to exceed \$15m on an annual basis and are focused on a mix of retail through our strong relationship with Foodstuffs, hotel and restaurant business and key wholesalers.

### Australia

Australia has been the Moana primary fresh chilled market this season due to market demand and superior returns. Bluenose and snapper are the key species and the volume increases achieved last year have been consolidated this season. Although Australia has and will continue to experience times of "oversupply" due to the volume of New Zealand product now destined for this market, demand has been strong and returns have been higher than other markets.

Due to trans Tasman aviation competition we have not suffered either the increase in freight rates over the past years or the level of fuel surcharge applicable to US, European and Asian destinations. This has meant Australia is our most accessible export market.

Australia is also the main market for our pacific oysters. Competition from other NZ suppliers and domestic product has eroded prices and margins for the current season in this market.

### USA

USA has in the past been the "preferred" market for bluenose, john dory and snapper as returns were consistently higher than Australia. With the movement in the US dollar, freight rate increases and fuel surcharges, returns from Australia now generally exceed the USA. As a result prices from the US have increased and we are now achieving the highest "US dollar in market prices" to date although when converted back to a NZ free-on-board basis are less than returns achievable in other markets.

The USA continues to be a prime component of Moana's fresh chilled strategy and generally market demand exceeds supply. A key strategy as trading conditions improve will be to ensure that in-market price increases achieved to date are maintained when the US dollar strengthens. The USA remains the prime market for chilled and frozen orange roughy.

## Asia

Hong Kong, Japan, Korea and Taiwan are all strong performers in the fresh chilled markets for snapper, trevally, hapuku, flounder and the big tuna. Japan remains the prime market for sashimi grade fish and demands the highest quality standards. Moana is responsible for over half the fresh chilled seafood supplied into these markets from New Zealand.

Japan is also the prime market for frozen snapper, gemfish, hoki, barracoutta, trevally, leatherjackets and pacific oysters.

The principle markets for abalone are from Singapore to Shanghai. Demand and prices for abalone have remained buoyant and this has offset any exchange rate downside.

## Key Species

### Hoki (HOK)

The most important species in Sealord's portfolio is hoki (HOK). This year the HOK total allowable commercial catch (TACC) was reduced from 180,000 tonnes to 100,000 tonnes. At its peak the HOK TACC was 250,000 tonnes but in recent years poor recruitment, particularly in the important western stock has seen a decline in the fishery. The science is uncertain as to the reason for poor recruitment with some evidence pointing to environmental impact, in particular water temperature. In the face of this uncertainty Sealord as the major holder of HOK quota supported a conservative TACC of 100,000 tonnes as the most responsible way to ensure the long term viability and eventual rebuild of the stock. The last few years of western recruitment is showing signs of improving so a conservative TACC as we now have should hasten TACC increases again.

HOK was the first major whitefish fishery to receive Marine Stewardship Council (MSC) certification. The TACC reduction fulfilled one of the major requirements of MSC certification - a responsive, science based stock management system. The Hoki Management Company has recently announced its intention to seek recertification in March 2006 when the existing certification expires.

The TACC is likely to move up again in 2 - 3 years. The TACC reduction for an extended period has required major rationalising of the Sealord fleet and land based operations to reduce consequent surplus cost and capacity. When the TACC increases Sealord are positioned to be able to quickly add back both fishing and processing capacity as required.

### Snapper (SNA)

The snapper (SNA) fisheries of 1, 2 and 8 continue to perform strongly. SNA1 and SNA2 are fished throughout the year and this fish is used to service the fresh chilled markets of Australia, USA, Japan and the domestic market. The catch is spread across the longline, danish seine and trawl fisheries providing stable landings meeting market needs throughout the year.

The SNA8 fishery is predominately a trawl fishery, fished in the spring and summer, this fish is usually frozen on land and supplies the wedding and ceremonial markets of Korea and Japan.

The SNA8 fishery is currently under review following a tagging programme, the results of which Mfish has indicated are of concern to the Minister of Fisheries. This is despite strong anecdotal evidence from fisherman and fishing operators who believe the fishery has recovered and is now producing strongly at acceptable levels.

## Orange Roughy (ORH)

The orange roughy (ORH) fisheries off the north eastern coast (Gisborne and Napier) were the subject of significant cuts in the latter half of the nineties. The fishery in recent years has shown significant improvement culminating in the Minister of Fisheries agreeing to an industry proposal to increase the TACC of certain stocks (Figure 1) as of October 2004. AFL holds quota in each of the stocks that were increased.

FIGURE 1.

STOCK	OLD TACC (mt)	NEW TACC (mt)	TACC INCREASE (mt)	OLD AFL HOLDING (mt)	NEW AFL HOLDING (mt)	AFL HOLDING INCREASE (mt)
ORH2A	680.000	1,100.000	420.000	161.336	260.985	99.649
ORH2B	99.000	185.000	86.000	24.790	46.324	21.534
ORH3A	221.000	415.000	194.000	4.908	9.216	4.308

The fishery continues to perform strongly with all the catch taken this season outside the spawning period and used to service the fresh chilled and frozen markets of the USA. As the fishery continues to perform strongly there is an expectation that there will be further TACC adjustments. In-market pricing has also been at near record levels as the USA market continues to demand high quality premium white fillet.

## Bluenose (BNS)

AFL's bluenose (BNS) portfolio is predominantly in the BNS1 and BNS2 fisheries of the north and eastern coasts of the North Island, this fishery is harvested utilising longline and mid-water trawl methods. Both fisheries continue to perform strongly and the catch is spread throughout the year to maximise market opportunities.

The BNS2 fishery operates under an Adaptive Management Programme (AMP) and resulted in a TACC increase of 174 tonnes, such is the performance of the fishery.

Unfortunately 89.4 tonnes of the 174 tonnes increase was pre-allocated through s28n rights holders. The rules state that s28n rights are satisfied first and then the remaining increase in this case the 84.6 tonnes is divided amongst the shareholdings adjusted for the s28n rights provision. This means that while the TACC increased by 20% AFL's individual holding only went up by 7% (Figure 2).

FIGURE 2.

STOCK	OLD TACC (mt)	NEW TACC (mt)	TACC INCREASE (mt)	OLD AFL HOLDING (mt)	NEW AFL HOLDING (mt)	AFL HOLDING INCREASE (mt)
BNS2	873.000	1,048.000	175.000	243.600	260.985	17.385

The prime markets are the eastern seaboard of Australia and the west coast of the USA. BNS features strongly in the high value silver service restaurants and in-market prices continue at record levels.

## Tarakihi (TAR)

The bottom trawl tarakihi (TAR) 1 & 2 fisheries are significant AFL fisheries, with our harvesters responsible for over 50% of the catch in these fisheries. Both fisheries are harvested throughout the year and are strong performers. TAR forms the backbone of our supermarket business and is responsible for 50% of fresh fillet sales.

TAR2 also achieved an increase of 163.0 tonnes under the AMP programme from 1,632.8 tonnes to 1,796.0 tonnes. Like BNS2 priority s28n rights of 19.3 tonnes had to be satisfied. The net result was an improvement in AFL holdings from 306.3 tonnes to 332.9 tonnes or an increase of 26.6 tonnes (figure 3).

FIGURE 3.

STOCK	OLD TACC (mt)	NEW TACC (mt)	TACC INCREASE (mt)	OLD AFL HOLDING (mt)	NEW AFL HOLDING (mt)	AFL HOLDING INCREASE (mt)
TAR 2	1,632.800	1,796.000	163.000	306.300	332.900	26.600

While TAR2 received a modest TACC increase in October 2004 we will be strongly promoting a significant increase to the TAR1 TACC for the 2005/06 season.

## Tuna

There have been significant issues this year in both the big tuna longline fisheries (southern bluefin, big eye, and yellowfin) and the jig (troll) albacore fishery. The north and west coast summer albacore jig fishery failed to perform this year with colder than usual water temperatures and poor beach prices available to fisherman due to the strength of the NZ dollar impacting on catch. The Minister's decision to delay the entry of albacore into the quota management system (QMS) received widespread industry support.

The big tuna longline fisheries have also been slow to perform this year. The introduction of the big tuna into the QMS in October 2004 without the needed by-catch species led to uncertainty within the harvest sector, coupled with cooler summer water temperatures and poor in-market prices has resulted in a slow start to the fishery this season.

The fleet is currently preparing for the southern bluefin fishery and is looking to take advantage of the stronger traditional winter prices for sashimi grade fish available from the fresh chilled tuna markets of Japan.

## Paua

The paua (PAU) fishery has enjoyed stock stability during the current year and is also expected to do so for the next two years.

### PAU4

The Chatham's fishery was recently assessed as being in good shape.

### PAU7

Most assessment has focused on the performance of the PAU7 stock, which saw a voluntary shelving of some 15% of the available ACE. The numbers of PAU recruiting into the fishery are seen as adequate but the fishing mortality is extremely high. However it is agreed that the stock is rebuilding and the point of contention between industry and MFish is the speed of that rebuild.

## Other Areas

The speed with which micro-management can be introduced into the other management areas is an issue as this will eventually lead to greater productivity within the fisheries. In this regard the establishment of the Paua Industry Council can only be for the benefit of the fishery.

Reseeding experiments continue in a number of areas, but remain unproven (though popular). These efforts positively contribute to collaboration within the management areas.

Future actions must inevitably concentrate on safer and more realistic harvesting practices and smaller areas, rather than stock wide management practices.

Paua aquaculture continues but has yet to be proven to be commercial and capable of producing commercial quantities in larger sizes.

## Oysters

The new aquaculture law was enacted and has resulted in a new regime for the management and approval of water space for marine farming. In future marine farming will only be permitted in aquaculture management areas (AMAs) and the ability to get new water space areas granted will be even more demanding.

Improving and maintaining water quality in growing areas remains a primary concern for the industry given the increased pressure for housing development in rural coastal areas. By and large sewage reticulation systems from Coromandel through to the Far North will require better design and capacity to cope with increased activity and is an issue which requires careful monitoring.

Farming methods rely to a large extent on nature and a high manual labour content to deliver mature oysters for processing. The demanding nature of existing farming methods and the general shortage of labour means the industry needs to develop new ways of farming oysters. The method of farming also means that nature is one of the primary drivers of quality.

Over the last few seasons PMF has made significant investments in research and development projects looking at improving oyster farming from hatchery through to trials of different grow-out methods. Improvements in this area will eventually deliver the necessary advances to sustain our competitive advantage in global markets.

## Eels

Last year the North Island eel fishery was brought into the QMS under four separate quota management areas (QMA). The TACC's were split into long-fin (LFE) and short-fin (SFE) fisheries for each QMA.

Key markets for our eel products are Asia, Europe and the USA. The product forms are live, gutted, pieced and smoked. There is a small but increasing awareness in the domestic market.

The market outlook is positive particularly with the downturn in wild fishery productivity in Europe and Asia.

## Rock Lobster (CRA)

The CRA3 (Gisborne/East Cape) fishery despite industry attempts to offer alternative management options suffered a reduction in the TACC of 137mt (237mt down to 190mt) this year.

While always fully supportive of sustainability objectives AFL believes, in this instance, that an absence of clear defined property rights for all users and a failure to embrace a “shared gain shared pain” approach to rights based fisheries management means the decision not only has significant economic impacts for the region but will merely result in a reallocation of the share of the available harvest.

### Key Initiatives

In keeping with its sustainable utilisation objectives and therefore protection of quota values for Iwi AFL has recently commissioned a range of opinions that look at the current impact certain regulations are having on the long term sustainability of certain CRA fisheries. In particular AFL is looking to better align sustainability utilisation objectives through stricter definition and enforcement of the term “landing” in respect of the holding, transfer and receipt of lobsters.

# Consolidated Statement of Financial Performance

for the four months ended 31 March 2005

	4 MONTHS ENDED 31 MARCH 2005
	UNAUDITED \$'000
Sales revenue	34,509
Interest income	19
Gain on sale of fixed assets	1,192
Sundry income	109
<b>Total operating revenue</b>	<b>35,829</b>
<b>EBITDA</b>	<b>1,906</b>
Depreciation	(756)
Interest expense	(1,111)
Foreign exchange gains	742
<b>Operating surplus before taxation</b>	<b>781</b>
Taxation expense	0
<b>Net surplus after taxation</b>	<b>781</b>
Share of associate companies surplus	7,158
<b>Net surplus for the period</b>	<b>7,939</b>

# Consolidated Statement of Movements in Equity

for the four months ended 31 March 2005

	4 MONTHS ENDED 31 MARCH 2005
	UNAUDITED \$'000
Total equity on incorporation	0
Capital contributed during the period	286,979
Redeemable preference shares	20,000
Net surplus for the period	7,939
<b>Total equity at end of the period</b>	<b>314,918</b>

# Consolidated Statement of Financial Position

as at 31 March 2005

	4 MONTHS ENDED 31 MARCH 2005
	UNAUDITED \$'000
<b>SHAREHOLDERS' EQUITY</b>	
Capital contributed	286,979
Redeemable preference shares	20,000
Retained earnings - current period	7,939
<b>Total shareholders' equity</b>	<b>314,918</b>
<b>CURRENT ASSETS</b>	
Cash on hand and at bank	4,764
Trade debtors	9,515
Other debtors and prepayments	9,503
Inventories	10,425
<b>Total current assets</b>	<b>34,207</b>
<b>NON-CURRENT ASSETS</b>	
Fixed assets	13,745
Investments in associates	188,416
Long term assets - ITQ	126,578
Long term assets - other	6,959
<b>Total non-current assets</b>	<b>335,698</b>
<b>Total assets</b>	<b>369,905</b>
<b>CURRENT LIABILITIES</b>	
Bank overdraft (secured)	5,101
Trade creditors	4,333
Other creditors	4,470
<b>Total current liabilities</b>	<b>13,904</b>
<b>NON-CURRENT LIABILITIES</b>	
Bank loans (secured)	40,000
Provision for taxation	1,083
<b>Total non-current liabilities</b>	<b>41,083</b>
<b>Total liabilities</b>	<b>54,987</b>
<b>NET ASSETS</b>	<b>314,918</b>

# Consolidated Statement of Cash Flows

for the four months ended 31 March 2005

	4 MONTHS ENDED 31 MARCH 2005
	UNAUDITED \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash was provided from:	
Receipts from customers	39,576
Dividends received	8,003
Interest received	58
	<b>47,637</b>
Cash was applied to:	
Payments to suppliers and employees	38,771
Interest paid	892
	<b>39,663</b>
<b>Net cash flow from operating activities</b>	<b>7,974</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash was provided from:	
Sale of fixed assets	4
	<b>4</b>
Cash was applied to:	
Purchase of fixed and long term assets	1,175
Purchase of other investments	54
	<b>1,229</b>
<b>Net cash flow from investing activities</b>	<b>(1,225)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Cash was provided from:	
Advances from related parties	29
	29
Cash was applied to:	
Repayment of loans and advances	8,965
Advances to related parties	242
Other	2
	<b>9,209</b>
<b>Net cash flow from financing activities</b>	<b>(9,180)</b>
<b>Net cashflow for the period from all activities</b>	<b>(2,431)</b>
Cash at the beginning of the period	2,081
Effects of exchange rate changes on opening cash	13
<b>Cash at the end of the period</b>	<b>(337)</b>
<b>Represented by:</b>	
Cash on hand and at bank	4,764
Bank overdraft (secured)	(5,101)
	<b>(337)</b>

## Consolidated Reconciliation of Net Surplus After Tax to Cash Flow from Operating Activities

	4 MONTHS ENDED 31 MARCH 2005
	UNAUDITED \$'000
<b>OPERATING SURPLUS AFTER TAXATION</b>	7,939
Non-cash items:	
Depreciation	756
Unrealised foreign exchange gains	(13)
Gain on sale of fixed assets	(1,426)
Share of associate companies surplus	(7,158)
	<b>(7,841)</b>
Movements in working capital:	
(Increase) decrease in debtors and prepayments	10,511
(Increase) decrease in inventories	(1,272)
Increase (decrease) in creditors	(1,590)
	<b>7,649</b>
Other cash movements:	
Advances to related parties	214
Other	13
	<b>227</b>
<b>Net cash flow from operating activities</b>	<b>7,974</b>

# Statement of Accounting Policies

## Reporting Entity

AFL was incorporated on 26 November 2004. The Aotearoa Fisheries Group of Companies consists of the company, its subsidiaries and associates.

The financial statements for the Group are for the four month period ended 31 March 2005. There are no figures for the comparative period as the company was incorporated on 26 November 2004.

## Statutory Base

The company is registered under the Companies Act 1993 and these financial statements have been prepared in accordance with FRS-24 Interim Financial Statements.

## Measurement Base

The company was the recipient of assets and liabilities transferred as part of the Maori Fisheries Act 2004. The Transfer has been accounted for as a purchase transaction in accordance with FRS-36. The measurement base adopted with respect to the assets and liabilities received is that of Fair Value which is treated as cost. The Derived net value of the assets received by the company is treated as a capital contribution.

## Specific Accounting Policies

The following specific accounting policies have been used in the preparation of these accounts:

### Consolidated Accounts

The Consolidated Financial Statements include all subsidiaries using the purchase method of consolidation. All significant inter-company transactions are eliminated on consolidation.

### Associate Companies

The Group's investments in Associate Companies are equity accounted. The Group's share of any net surplus from Associate Companies is recognised as part of the Statement of Financial Performance and also in the carrying amount of the investment in associates. Any dividends received from associates are credited against the carrying value of the investment in associates.

## Foreign Currencies

At the end of the reporting period foreign currency assets and liabilities are translated into New Zealand dollars at the closing rate or the forward rate where foreign exchange contracts are in place. Any exchange variations arising from these transactions are recognised in the Statement of Financial Performance.

## Financial Amounts

The Group uses financial instruments to reduce exposure to movements in foreign currency exchange rates and interest rates. Forward exchange contracts and options are arranged to hedge sales denominated in foreign currencies.

## Quota

The ITQ is stated at Fair Value.

## Fixed Assets

Fixed Assets are stated at cost less accumulated depreciation. Any gains and losses on the disposal of fixed assets are included in the Statement of Financial Performance.

## Depreciation of Fixed Assets

Depreciation is calculated using a combination of straight line rates and diminishing values to write-off the cost of depreciable assets over their expected useful economic life. Depreciation rates are regularly reviewed and adjusted as and when required.

	YEARS
BUILDINGS	10 - 50
PLANT AND MACHINERY	2 - 20
OFFICE FIXTURES AND FITTINGS	2 - 10
COMPUTER SOFTWARE	1 - 5
MOTOR VEHICLES	3 - 5
MARINE FARM ASSETS	14

## Inventory

Inventory is stated at the lower of cost or net realisable value.

Cost is determined on a weighted average basis and includes the expenditure incurred in bringing inventory to its' existing condition and location. Costs include an appropriate share of fixed overheads which are allocated on the basis of normal production capacity.

## Receivables

Receivables are stated at the expected net realisable value.

## Investments

Investments are stated at the lower of cost or net realisable value.

## Investments in Subsidiaries

Investments in subsidiaries and any advances to and from subsidiaries are stated at the lower of cost or their recoverable amount.

## Taxation

Income tax is calculated after adjusting for any permanent differences between accounting income and taxable income. The liability method of accounting for deferred tax on a comprehensive basis has been adopted. Deferred income tax benefits arising from timing differences are not recognised unless there is virtual certainty of recovery in future periods.

## Employee Entitlements

Liabilities for annual and long service leave are accrued and recognised in the Statement of Financial Performance.

## Changes in Accounting Policy

The accounting policies have been applied since the company was incorporated on 26 November 2004.

## Directory

### Board of Directors

Robert McLeod, Chairman	Ngati Porou
Craig Ellison	Ngai Tahu
Matanuku Mahuika	Ngati Porou, Ngati Raukawa, Te Aitanga a Mahaki
Craig Norgate	
Keith Sutton	

### Executive Management Team

Robin Hapi	Chief Executive Officer
Tom McClurg	General Manager, Strategy & Planning
Danny McComb	Chief Financial Officer
Brent Marshall	Divisional Manager, Inshore
Dean Moana	Divisional Manager, Aquaculture
Jim Pendleton	Divisional Manager, Abalone

## REGISTERED OFFICE

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