



OPERATIONAL AND TRADING REVIEW TO 31 MARCH 2003

OVERVIEW FOR THE 2002/03 LOBSTER SEASON

The 2002/03 Lobster Season commenced on 15 November 2002 with a beach price (being the price paid by processors to crayfishermen) of more than \$35/kilogram and maintained a price above \$30/kilogram until mid-February 2003. By March 2003, this price had retreated to \$23/kilogram and the current beach price is between \$10-14/kilogram with various arrangements by processors to make further payments to fishermen based on certain conditions.

This declining trend in the beach price is unlike the price trend of previous years which generally rose as the season progressed. The initial high prices experienced in the first half of the current season has caused significantly difficult trading conditions for processors, some of whom have been caught with holding significant stock levels at costs higher than the market selling price.

Other market conditions for the sale of lobsters exacerbated the problem caused by the beach price trend outlined above. The Iraqi war was the initial global factor that negatively affected demand sentiment in the key markets for lobsters in China, USA, Taiwan and Japan. The outbreak of the SARS virus in Guangdong Province in China occurred in December 2002 with an immediate drop in demand for our lobsters. In March 2003, the admission by China of the SARS epidemic and the subsequent spreading of the virus to Hong Kong, Singapore, Canada, Taiwan and other countries contributed to a significant drop in demand for the product and a correspondingly weaker market price.

The continuing rise in the strength of the Australian Dollar as the season progressed has also adversely affected profit margins for Australian suppliers. This factor also had an adverse impact on the costs of our products to buyers relative to previous years. It also has the effect of causing our traditional buyers to substitute our product for the inferior, but lower cost and better margin products sourced from Mexico, Cuba and Florida.

The trading difficulties have been encountered generally by both fishermen and processors and the industry will require substantial review and planning for the following season.

EFFECT OF INDUSTRY MALAISE ON CERVANTES TRADING RESULTS

The Company reports an unaudited net operating loss before tax of \$2.4m to 31 March 2003. This highly disappointing results followed the half year reported trading loss of \$1.0m to 31 December 2002 in which the Company reported that negative trading and operational conditions adversely affecting the Company's results. At the prevailing beach price of \$14/kilogram (from about mid-April 2003), the Company is making some recovery in trading margin, although it is not expected that the balance of the 2002/03 season (which concludes on 30 June 2003) will generate any material improvement to the Company's trading loss to date.

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The adverse trading results for the period to 31 March 2003 can be attributed to the following specific factors:

- **Selling Price:** The actual selling price achieved for both live and cooked products was substantially below that forecasted for the season. This lower than forecasted selling price is attributed to the negative factors affecting world demand for lobsters and intense competition from other overseas suppliers outlined above.
- **Catch size:** The unrealistically high beach price during the first half of the current catching season adversely affected our purchase of the product. The Company took the tactical view not to hold significant levels of inventory at the high price. This approach resulted in actual catch being markedly lower than that forecasted and this has had the dual effect of impacting forecasted margin on sales and increasing overhead costs recovery per kilogram.
- **Pot Leases recovery:** The Company, under certain share fishing arrangements with fishermen (based on industry standard practices), expects to recoup pot leases from the value of catch delivered by fishermen. Based on current anticipated catch volumes and low beach price, the Company has provided approximately \$490,000 against the non-recovery of pot leases costs. This provision may improve in the event that the beach price rises materially during the balance of the catch season. This occurrence, however, is generally not expected.
- **Overhead expenses:** Overhead and corporate expenses were approximately \$130,000 higher than forecasted for the period.
- **Cervantes Fire:** During December 2002, a fire occurred in the Cervantes Township vicinity which interrupted the supply of power to the Company's operations. This resulted in the Company having to shut down its operations for approximately one week during the busiest period of the season.

C A S H F L O W

The Company continued to encounter adverse cashflow effects for the trading quarter ended 31 March 2003, principally on account of high beach prices and a falling market price for the product (exacerbated by the rising Australian dollar value). At the current beach price and market price being achieved by Cervantes Seafood the cashflow margin is positive. The Company will also continue to recover prepaid fishing expenses from the catch to be maintained for the balance of the 2002/03 season. The Company is pleased to note that, despite the adverse trading conditions encountered, it continues to trade with a positive working capital position. The Company currently has trade and export financing facilities which remain undrawn at this time. Cervantes Seafood is continuing to settle fishermen payments on schedule. The Company will review its cashflow requirements for the next season and examine a number of financing alternatives.

For the balance of the 2002/03 season, the Company will continue its loyal association with its fishermen and boatowners in an effort to improve its future trading results.

Authorised by:

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