



16 September 2003

Company Announcements Office
Australian Stock Exchange
PO Box H224
Australia Square
Sydney NSW 2000

Dear Sir/Madam

Please find attached the Notice of Meeting in relation to the INF merger, dispatched to shareholders today.

Yours sincerely,

Anthony Ho
Company Secretary

ABN 79 097 982 235


219-221 York Street, Subiaco Western Australia 6008
Telephone: (61-8) 9382 1311 Facsimile: (61-8) 9382 1322



CERVANTES SEAFOOD LIMITED
ABN 79 097 982 235

**NOTICE OF GENERAL MEETING AND
EXPLANATORY STATEMENT AND
PROXY FORM**

For a General Meeting to be held on
Thursday, 16 October 2003 at 2.00 pm (WST) at
The Celtic Club, 48 Ord Street, West Perth, Western Australia

This is an important document. Please read it carefully.

*If you are unable to attend the General Meeting, please complete the Proxy Form enclosed
and return it in accordance with the instructions set out on the Proxy Form.*

TIME AND PLACE OF MEETING AND HOW TO VOTE

Venue

A General Meeting of the shareholders of Cervantes Seafood Limited will be held at:

**The Celtic Club
48 Ord Street, West Perth,
Western Australia**

**Commencing
2.00 pm (WST)
on Thursday, 16 October 2003**

How to Vote

You may vote by attending the meeting in person, by proxy or authorised representative.

Voting in Person

To vote in person, attend the meeting on the date and at the place set out above. The meeting will commence at 2.00 pm.

Voting by Proxy

To vote by proxy, please complete and sign the Proxy Form enclosed with this Notice of General Meeting as soon as possible and either:

- send the Proxy Form by facsimile to the Company on facsimile number (08) 9355 4899 (International: + 618 9355 4899); or
- deliver the Proxy Form to the principal office of the Company at Unit 3, 22 Milford Street, East Victoria Park, Western Australia,

so that it is received not later than 2.00 pm (WST) on Tuesday 14 October 2003.

Your Proxy Form is enclosed.

CERVANTES SEAFOOD LIMITED
ABN 79 097 982 235

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of shareholders of Cervantes Seafood Limited (**Cervantes or Company**) will be held at The Celtic Club, 48 Ord Street, West Perth, WA at 2.00 pm (WST) on Thursday, 16 October 2003.

AGENDA

The Explanatory Statement that accompanies and forms part of this Notice describes the matters to be considered at this meeting.

SPECIAL BUSINESS

Resolution 1 – Issue of Shares to INF Pty Ltd

To consider and, if thought fit to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of Item 7 of Section 611 of the Corporations Act, Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, shareholders approve the issue to INF Pty Ltd of up to 57,527,778 fully paid ordinary shares in the capital of the Company on the terms and conditions set out in the Explanatory Statement accompanying this notice”.

Short Explanation: Under Chapter 6 of the Corporations Act a person must not acquire a relevant interest in issued voting shares of 20% or more of the total issued voting shares of a public company without obtaining prior shareholder approval. ASX Listing Rule 7.1 requires a company to seek shareholder approval prior to issuing securities in excess of 15% of the company's issued capital. Under ASX Listing Rule 7.1, a company may seek shareholder approval prior to an issue of securities to allow it the flexibility to make future issues of securities up to the threshold of 15% of its total equity securities in any 12 month period. Please refer to the Explanatory Statement for details.

Voting Exclusion: The Company will disregard any votes cast on this resolution by INF Pty Ltd and any of its associates.

Resolution 2 – Election of Mr Paul Rengel as a Director

To consider and, if thought fit to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“Subject to the passing of Resolution 1 and completion of the heads of agreement dated 10 July 2003 between the Company, INF Pty Ltd and Chunagon Co Ltd, that, in accordance with Article 11.11 of the Company's Constitution and for all other purposes, Mr Paul Rengel, having been recommended by the Directors of the Company and consented to act, be elected as a director of the Company.”

Short Explanation: Under Article 11.11 of the Company's Constitution a person recommended by the Directors of the Company for election is eligible for election to the office of Director at any General Meeting.

Resolution 3 – Placement of Shares and Options

To consider and, if thought fit to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, shareholders approve the issue of:

- (a) up to 15,000,000 fully paid ordinary shares in the capital of the Company to be issued at a minimum price of 90% of the average market price of the Shares over the last five days on which sales of the Shares were recorded before the day on which the issue is made and on the terms and conditions set out in the Explanatory Statement accompanying this notice; and*
- (b) up to 7,500,000 attaching options to acquire fully paid ordinary shares in the capital of the Company on the basis of one free option to be issued for every two shares subscribed for, to be issued on the terms and conditions set out in the Explanatory Statement accompanying this notice .”*

Short Explanation: ASX Listing Rule 7.1 requires a company to seek shareholder approval prior to issuing securities in excess of 15% of the company's issued capital. Under ASX Listing Rule 7.1, a company may seek shareholder approval prior to an issue of securities to allow it the flexibility to make future issues of securities up to the threshold of 15% of its total equity securities in any 12 month period. Please refer to the Explanatory Statement for details.

Voting Exclusion: The Company will disregard any votes cast on this resolution by any person who may participate in the placement and any person who might obtain a benefit except a benefit solely in the capacity of a security holder if the resolution is passed, and any associates of those persons.

DATED THIS 16th DAY OF SEPTEMBER 2003
BY ORDER OF THE BOARD

Anthony Ho
Company Secretary

NOTES:

1. A shareholder of the Company who is entitled to attend and vote at a general meeting of shareholders is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the shareholder's voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half of the votes. A proxy need not be a shareholder of the Company.
2. Where a voting exclusion applies, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.
3. For the purposes of the Meeting, the Directors have set a snapshot date to determine the identity of those entitled to attend and vote at the Meeting. The snapshot date is 2.00 pm (WST) on Tuesday 14 October 2003.

EXPLANATORY STATEMENT

This Explanatory Statement and all attachments are important documents. They should be read carefully.

1. GENERAL INFORMATION

This Explanatory Statement has been prepared for the shareholders of Cervantes Seafood Limited (**Cervantes** or **Company**) in connection with the general meeting of the Company to be held on Thursday 16 October 2003.

1.1 Background

On 10 July 2003, the Company announced that it had entered into the Agreement to merge its operations and assets with the INF Assets.

INF runs a successful lobster trading business which has been in operation in Western Australia for over 28 years. The merger of the INF business will more than double the Company's catch-base per season to over 900 tonnes. In the 2002/03 season which has just finished, INF achieved a turnover of approximately \$13.7m (Cervantes Seafood - \$9.5m). This expansion of the Company's business will significantly improve the costs and operational structure of the Company. The expanded catch base will also optimise the use of the Company's processing arrangements which has a capacity of over 1500 tonnes. INF has an established marketing focus in Japan, Taiwan and Europe while the Company has established marketing focus in China, Taiwan, Hong Kong and the USA. The combined market focus of the Company and INF will enhance the marketing and pricing strategies of the Company.

The Board of the Company regards the INF merger as a key strategy for growth and consolidation within the lobster export business. The proposed merger will also contribute significant working capital resources to the Company. The expanded catch base and working capital resource will improve the Company's ability to retain existing boats and fishermen and at the same time, enhancing its control over this important supply factor.

Chunagon Co Ltd, a Japanese company, is the sole shareholder of INF, has formed the clear intention of entering into this merger with a view to ensuring that its foundation investment in the Western Australian Rock Lobster industry will remain secure. Chunagon intends to maintain its long-term position in the industry.

1.2 Consideration for the merger

In consideration of the merger of the INF Assets, the Company is to:

- (a) assume certain employment-related liabilities of INF; and
- (b) issue to INF, 57,527,778 Shares, at a deemed issue price of \$0.107 per share.

1.3 Election of Director

Upon successful completion of the acquisition of the INF Assets, Mr Paul Rengel is to be appointed as a non-executive director of the Company.

Mr Rengel is a Fellow of the Institute of Chartered Accountants in Australia. He is one of the senior partners of an accounting practice in Perth. He has over 30 years experience in corporate services, audit and business consulting. Mr Rengel is chairman and director of a number of companies listed on ASX.

The senior operational staff of INF will remain with the business.

2. THE RESOLUTIONS

2.1 Resolution 1 – Issue of Shares to INF Pty Ltd

Resolution 1 seeks shareholder approval to issue to INF up to 57,527,778 Shares.

2.1.1 Section 611 of the Corporations Act

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point above 20% and below 90%.

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

The "associate" reference includes a reference to a person:

- (a) who has the capacity to control a company;
- (b) a person who has the ability to control or influence the composition of a company's board or the conduct of a company's affairs; and
- (c) who is acting in concert in relation to a company's affairs.

A person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

Item 7 of Section 611 of the Corporations Act

Item 7 of Section 611 of the Corporations Act provides an exception to the general prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

Resolution 1 seeks shareholder approval under Item 7 of Section 611 of the Corporations Act in order for the voting power of INF in the Company to increase to greater than 20%.

Information is required to be provided to shareholders under ASIC Policy Statement 74 and the Corporations Act. Shareholders are also referred to the Independent Expert's Report which accompanies this Notice.

Identity of persons who will hold a relevant interest in Shares to be issued

INF, and each of its associates, will hold a relevant interest in Shares on completion of the issue of Shares pursuant to the Agreement.

As at the date of this Notice, INF is not entitled to any Shares. Immediately, after the issue of Shares, INF will hold 57,527,778 Shares.

History of INF

The business of INF began operations in 1967 as International Fisheries Pty Ltd, a Perth-based distributor of fresh and frozen seafood. Having established itself as a supplier of quality seafood at competitive prices, both locally and overseas, INF then became a licensed lobster processor and expanded its export operations.

In 1985 the company changed its name to INF Pty Ltd and in 1987, Chunagon Co Limited ("Chunagon") became the parent entity after being a major customer for several years. Chunagon is an unlisted public company in Japan with a substantial seafood distribution network. It is also the operator of a large number of premium seafood restaurants specialising in rock lobster.

The acquisition of INF by Chunagon provided further funding for the expansion of its operations, especially in export market sales.

INF operates from a well-equipped processing facility in Osborne Park, Western Australia. The Company has a highly experienced workforce with key personnel having been with the company for over 10 years. The accounts of INF have been subject to audit since its acquisition by Chunagon. INF operates as an efficient and profitable participant in the lobster processing, distribution and export industry.

Voting power of INF

INF's voting power in the Company immediately before the proposed issue of Shares is Nil.

The maximum extent of the increase in INF's voting power that would result from the issue of Shares is 47.5%.

INF's voting power in the Company as a result of the proposed acquisition will be 47.5%.

Voting power of INF's associates

INF does not have any relevant associates in the context of section 611 of the Corporations Act other than Chunagon. Chunagon's voting power in INF will increase from nil to 47.5% as a result of the proposed issue of Shares. Chunagon is an unlisted public company in Japan and is not controlled by any person in such a way as to give any such person a relevant interest or voting power in the Shares to be issued to INF.

Relevant interests in Shares to be issued

Chunagon will have a relevant interest in the Shares to be issued to INF.

INF's intentions

INF gave the Company the following information to assist the Company meet its responsibilities under ASIC Policy Statement 74. The information is based on INF's current awareness of the financial and strategic position of the Company. The Company takes no responsibility for any omission from, or any error or false or misleading statement in this section.

If shareholders approve the issue of Shares:

(a) Business of Company

INF does not presently intend to change the business of the Company.

(b) Injection of Capital

INF does not presently intend to inject further capital into the Company. However, if the Company wishes to raise further capital in the future, INF would, subject to the terms of the capital raising, consider supporting the Company's future capital raising initiative.

(c) Present Employees

INF does not presently intend to change the Company's current employment arrangements.

(d) Transfer of Property

INF is not presently party to any proposal whereby property will be transferred between INF and the Company or any of their associates.

(e) Redeploy Fixed Assets

INF does not presently intend to redeploy any of the Company's fixed assets.

(f) Financial and Dividend Policies

INF does not presently intend the change of the Company's policies in relation to financial matters or dividends.

(g) Directors

INF intends to put forward the following person to be appointed a director of the Company:

Name	Qualifications	Associations with INF and associates of INF
Mr Paul Rengel	Mr Rengel's qualifications are discussed in Section 2.2 of this Explanatory Statement	Mr Rengel is a financial adviser of INF.

INF has indicated that it may seek to appoint an additional director to the board of Cervantes in the future.

2.1.2 Listing Rules 7.1 of the ASX Listing Rules

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, during any 12 month period issue any equity or other securities with rights of conversion to equity if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of the 15% threshold is where the issue has the prior approval of shareholders in general meeting.

The proposed issue of up 57,527,778 Shares is placed before shareholders to allow this number of securities to be excluded from the calculation set out in ASX Listing Rule 7.1.

The following information is provided in relation to the proposed issue of Shares in accordance with ASX Listing Rule 7.3:

- (a) the maximum number of Shares to be issued to INF under the Agreement is 57,527,778;
- (b) the Company will issue the Shares the subject of the Agreement within 3 months of the date of the Meeting (or such other date as extended by ASX) and it is anticipated that all of those Shares will be issued on one date;
- (c) all Shares issued to INF will be issued on the same terms as, and will rank equally with the Company's existing listed Shares; and
- (d) the Shares will be issued in consideration for the acquisition of the INF Assets at a deemed issue price of \$0.107 per Share.

2.1.3 Directors' Recommendations

The Directors unanimously recommend that shareholders approve the resolutions for the following reasons:

- (a) (i) INF is a business that achieved, over the four years period to 30 November 2002, a sound audited earnings record (refer Independent Expert's Report for further details). In the 2002/03-lobster season, it generated a modest EBIT despite an extremely difficult trading environment for all industry participants;
 - (ii) the merger with INF should double the Company's catch-base per season to over 900 tonnes. Additionally, the turnover of Cervantes will increase significantly to (based on the 2002/03 season) around \$25 million. The increased scale of operations should result in improved operational costs and efficiencies;
 - (iii) the expanded catch-base should also result in improved effectiveness in the combined processing arrangements. The Company will have access to processing facilities through various arrangements in Perth and Cervantes. The expanded catch-base and working capital resources will improve the Company's ability to retain existing boats and fishermen and at the same time, enhance its influence over this critical supply factor;
 - (iv) Cervantes' working capital position has been severely affected by the difficult trading conditions encountered in the 2002/03-lobster season. The merger will also result in a substantial improvement in the working capital position of Cervantes. The merger will also result in Cervantes owning freehold land and buildings which could provide security to facilitate additional borrowings, if required;
 - (v) Mr Rengel and the senior management staff of INF will contribute considerable experience to the management and operational team of Cervantes; and
- (b) the Independent Expert has concluded that the issue of Shares to INF is fair and reasonable to the non-associated shareholders in the Company.

Shareholders should read this Explanatory Statement in full, including the Independent Expert's Report referred to below to form an opinion on the merits of the proposal.

2.1.4 Independent Expert's Report

The Independent Expert's Report sets out a detailed examination of the proposed transaction to enable shareholders to assess the merits and decide whether to approve the proposal.

The Company commissioned the Independent Expert to prepare the Independent Expert's Report for the purposes of Item 7 of Section 611 of the Corporations Act. The Independent Expert's Report contains information required to be provided to shareholders under ASIC Policy Statements 74 and 75, and the Corporations Act.

To the extent that it is appropriate, the Independent Expert's Report sets out further information with respect to the proposed transaction and concludes that the issue of Shares to INF is fair and reasonable to the non-associated shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

2.2 Resolution 2 – Election of Mr Paul Rengel as a Director

Upon successful completion of the Agreement, INF wishes to appoint Mr Paul Rengel to the Company's board of directors. The Company may appoint a person as a director by an ordinary resolution passed in a general meeting.

Mr Rengel is a Fellow of the Institute of Chartered Accountants in Australia. He is one of the senior partners of an accounting practice in Perth. He has over 30 years experience in corporate services, audit and business consulting. Mr Rengel is chairman and director of a number of companies listed on ASX.

Subject to successful completion of the Agreement, the Directors support the election of Mr Paul Rengel and believe it is in the best interests of shareholders that he be appointed as a director.

INF has indicated that it may seek to appoint an additional director to the board of Cervantes in the future.

2.3 Resolution 3 – Placement of Shares and Options

Resolution 3 seeks shareholder approval for the issue of up to 15,000,000 Shares and 7,500,000 attaching Options in order to raise working capital for the Company and to facilitate the consolidation of the INF Assets within the Company.

2.3.1 Listing Rules 7.1 of the ASX Listing Rules

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, during any 12-month period issue any equity or other securities with rights of conversion to equity if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12-month period.

One circumstance where an issue is not taken into account in the calculation of the 15% threshold is where the issue has the prior approval of shareholders in general meeting.

The proposed issue of up to 15,000,000 Shares and 7,500,000 attaching Options is placed before shareholders to allow this number of securities to be excluded from the calculation set out in ASX Listing Rule 7.1.

The following information is provided in relation to the proposed issue of Shares and attaching Options in accordance with ASX Listing Rule 7.3:

- (a) the maximum number of Shares to be issued under the placement is 15,000,000 and the maximum number of attaching Options to be issued is 7,500,000, with one Option to be issued for every two Shares subscribed for;

- (b) the Shares and attaching Options will be issued to parties at the discretion of the Directors;
- (c) the Company will issue the Shares and attaching Options the subject of the placement within 3 months of the date of the Meeting (or such other date as extended by ASX) and it is anticipated that all of those Shares and attaching Options will be issued on one date;
- (d) the Shares will be issued at a minimum price of 90% of the average market price of the Shares over the last five days on which sales of the Shares were recorded before the day on which the issue is made;
- (e) the attaching Options will be issued for nil consideration;
- (f) all Shares issued under the placement will be issued on the same terms as, and will rank equally with the Company's existing listed Shares;
- (g) all Options will be issued on the terms and conditions set out in Annexure A, which are the equivalent terms and conditions on which the Company's currently listed Options are issued; and
- (h) the funds raised will be used to provide working capital for the Company and to facilitate the consolidation of the INF Assets within the Company.

3. ENQUIRIES

Shareholders are invited to telephone the Company on (08) 9355 4799 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

Agreement means the heads of agreement dated 10 July 2003 between the Company, INF Pty Ltd and Chunagon Co Ltd, pursuant to which the Company agrees to purchase the INF Assets.

ASIC means Australian Securities and Investments Commission.

ASX means Australian Stock Exchange Limited.

ASX Listing Rules or **Listing Rules** means the Listing Rules of ASX.

Board means the board of directors of the Company.

Company and **Cervantes** means Cervantes Seafood Limited ABN 79 097 982 235.

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement to the Notice.

Independent Expert means Stanton Partners Corporate Pty Ltd.

Independent Expert's Report means the independent expert's report prepared by the Independent Expert which accompanies this Notice.

INF means INF Pty Ltd ABN 54 009 157 420.

INF Assets means all of the assets of INF's lobster processing and distribution business to be sold to the Company pursuant to the Agreement.

Meeting means the meeting convened by the Notice.

Notice means the notice of meeting accompanying this Explanatory Statement.

Option means an option to acquire a Share.

Share means a fully paid ordinary share in the capital of the Company.

WST means Western Standard Time.

ANNEXURE A

TERMS AND CONDITIONS OF OPTIONS

The terms and conditions of the Options are as follows:

1. *Entitlement*

Each Option shall entitle the holder the right to subscribe (in cash) for one (1) fully paid ordinary Share in the capital of the Company.

2. *Option Period*

Each Option will expire at 5.00pm WST on 31 August 2005 (such date being referred to as the "Option Expiry Date"). Each Option may be exercised at any time prior to the Option Expiry Date in accordance with the notice provisions set out below and any Option not so exercised shall automatically expire on the Option Expiry Date.

3. *Ranking of Share Allotted on Exercise of Option*

Each Share allotted as a result of the exercise of an Option will, subject to the Constitution of the Company, rank in all respects *pari passu* with the existing ordinary fully paid Shares in the capital of the Company on issue at the date of allotment.

4. *Voting*

A registered owner of an Option (herein referred to as an "Option Holder") will not be entitled to attend or vote at any meeting of the members of the Company unless they are, in addition to being an Option Holder, members of the Company.

5. *Transfer of an Option*

Each Option is transferable at any time prior to the Option Expiry Date. This right is subject to any restrictions on the transfer of an Option that may be imposed by the ASX in circumstances where the Company is listed upon the ASX.

6. *Method of Exercise of an Option*

6.1 The Company will provide to each Option Holder a notice that is to be completed when exercising the Options (such notice being called a "Notice of Exercise of Options"). Options may be exercised by the Option Holder completing the Notice of Exercise of Options and forwarding the same to the Secretary of the Company to be received prior to the Option Expiry Date. The Notice of Exercise of Options must state the number of Options exercised and the consequent number of ordinary shares in the capital of the Company to be allotted which number of Options must be a multiple of 2,500 if only part of the Option Holders total Options are exercised. If the total number of Options held by an Option Holder is less than 2,500, then the total of all Options held by that Option Holder must be exercised.

6.2 The Notice of Exercise of Options by an Option Holder must be accompanied by payment in full for the relevant number of Shares being subscribed, being an amount of 20 cents (\$0.20) per share.

- 6.3 Subject to Clause 6.1, the exercise of less than all of an Option Holders Options will not prevent the Option Holder from exercising the whole or any part of the balance of the Option Holders entitlement under the Option Holders remaining Options.
- 6.4 Within 14 days from the date the Option Holder properly exercises Options held by the Option Holder, the Company shall issue and allot to the Option Holder that number of fully paid ordinary shares in the capital of the Company so subscribed for by the Option Holder.
- 6.5 If the Company is listed on ASX, the Company will within Seven (7) days from the date of issue and allotment of Shares pursuant to the exercise of the Options, apply to ASX for, and use its best endeavours to obtain, Official Quotation of all such Shares, in accordance with the Corporations Act and the Listing Rules.
- 6.6 The Company will generally comply with the requirements of the Listing Rules in relation to the timetables imposed when quoted options are due to expire. Where there shall be any inconsistency between the timetables outlined herein regarding the expiry of the Options and the timetable outlined in the Listing Rules, the timetable outlined in the Listing Rules shall apply.

7. *Reconstructions*

In the event of a reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, all rights of the Option Holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital, at the time of the reconstruction.

8. *Participation in New Share Issues*

There are no participating rights or entitlements inherent in the Options to participate in any new issues of capital which may be made or offered by the Company to its shareholders from time to time prior to the Option Expiry Date unless and until the Options are exercised. The Company will ensure that during the exercise period of the Options, the Record Date for the purposes of determining entitlements to any new such issue, will be at least 9 Business Days after such new issues are announced (or such other date if required under the Listing Rules) in order to afford the Option Holder an opportunity to exercise the Options held by the Option Holder.

9. *Change of Options' Exercise Price or Number of Underlying Shares*

There are no rights to change the exercise price or the number of underlying ordinary shares if there is a pro-rata issue or bonus issue to the holders of ordinary shares.

PROXY FORM

APPOINTMENT OF PROXY

CERVANTES SEAFOOD LIMITED

ABN 79 097 982 235

GENERAL MEETING

I/We

being a Member of Cervantes Seafood Limited entitled to attend and vote at the Meeting, hereby

Appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the General Meeting to be held at The Celtic Club, 48 Ord Street, West Perth, Western Australia on Thursday, 16 October 2003 at 2.00 pm (WST) and at any adjournment thereof. If no directions are given, the Chairman will vote in favour of all of the resolutions.

Voting on Business of the General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 - Issue of Shares to INF Pty Ltd	☐	☐	☐
Resolution 2 - Election of Mr Paul Rengel	☐	☐	☐
Resolution 3 - Placement of Shares and Options	☐	☐	☐

If you do **not** wish to direct your proxy how to vote, please place a mark in this box

☐

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of the interest. The Chairman will vote in favour of all of the resolutions if no directions are given.

YOU MUST EITHER MARK THE BOXES DIRECTING YOUR PROXY HOW TO VOTE OR MARK THE BOX INDICATING THAT YOU DO NOT WISH TO DIRECT YOUR PROXY HOW TO VOTE, OTHERWISE THIS APPOINTMENT OF PROXY FORM WILL BE DISREGARDED.

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____ %

Signed this _____ day of _____ 2003

By:

Individuals and joint holders

appropriate)

Companies (affix common seal if

Signature

Director/Company Secretary

Signature

Director

Signature

Sole Director and Sole Company Secretary

CERVANTES SEAFOOD LIMITED

ABN 79 097 982 235

Instructions for Completing 'Appointment of Proxy' Form

1. A member entitled to attend and vote at a Meeting is entitled to appoint not more than two proxies to attend and vote on their behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
2. A duly appointed proxy need not be a member of the Company. In the case of joint holders, all must sign.
3. Corporate shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of Section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
 - 2 directors of the company;
 - a director and a company secretary of the company; or
 - for a proprietary company that has a sole director who is also the sole company secretary – that director.

For the Company to rely on the assumptions set out in Section 129(5) and (6) of the Corporations Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable. In particular, a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

4. Completion of a Proxy Form will not prevent individual shareholders from attending the Meeting in person if they wish. Where a shareholder completes and lodges a valid proxy form and attends the Meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the Meeting.
5. Where a Proxy Form or form of appointment of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged in like manner as this proxy.



STANTON PARTNERS CORPORATE PTY LTD

A.C.N 063 036 331

1 HAVELOCK STREET
WEST PERTH 6005
WESTERN AUSTRALIA

TELEPHONE: (08) 9481 3188

FACSIMILE: (08) 9321 1204

e-mail: jvdieren@stanton.com.au

10 September 2003

The Directors
Cervantes Seafood Limited
Unit 3
22 Milford Street
VICTORIA PARK WA 6100

Dear Sirs

RE: CERVANTES SEAFOOD LIMITED (ABN 79 097 982 235) MEETING OF SHAREHOLDERS PURSUANT TO SECTION 611 (ITEM 7) OF THE CORPORATIONS ACT 2001 ("TCA") TO ISSUE UP TO 57,527,778 SHARES TO INF PTY LTD TO ACQUIRE 100% OF THE BUSINESS OF INF PTY LTD

1. Introduction

- 1.1 We have been requested by the Directors of Cervantes Seafood Limited ("Cervantes" or the "Company") to prepare an Independent Expert's Report to determine the fairness and reasonableness of the proposal to acquire 100% of the business of INF Pty Ltd ("INF") by way of the issue of up to 57,527,778 ordinary shares to INF.

Resolution 1 refers to the proposal and further details are outlined in this report and the Explanatory Notes to Shareholders accompanying the Notice of Meeting to Shareholders ("the Notice") of Cervantes dated September 2003.

- 1.2 On 10 July 2003, Cervantes entered into a Heads of Agreement ("HOA") with INF and its sole shareholder, Chunagon Co Ltd ("Chunagon") under which the Company proposes to acquire 100% of the business assets and liabilities of INF. INF runs a lobster processing and trading business and has operated in Western Australia for approximately 28 years. The INF assets and liabilities to be taken over (not the issued capital) pursuant to the HOA are disclosed as:

	\$
▪ Freehold land and buildings (at independent valuation)	1,750,000
▪ Plant and equipment (at net written down value)	200,000
▪ Net working capital (refer below)	2,000,000
▪ Lobster pot licences	240,000
▪ Goodwill (deemed value)	<u>1,965,472</u>
	<u>6,155,472</u>



Furthermore, Cervantes will assume certain employment related liabilities of INF. The consideration is to be the issue of up to 57,527,778 ordinary shares ("consideration shares") in Cervantes at a deemed issue price of 10.7 cents each (deemed consideration of \$6,155,472). The consideration shares will be issued to INF. Under the HOA, INF has assumed it will have at least \$2,000,000 in working capital (current assets less current liabilities). In the event that INF has less than \$2,000,000 in working capital, the share consideration payable is reduced on a proportionate basis. By way of example, if working capital was set \$1,800,000, the shortfall of \$200,000 would be divided by 10.7 cents (being the deemed issue price of each consideration share) to arrive at the number of shares (in this case, 1,869,159) that will be reduced from the total consideration shares to be issued under the HOA.

It is noted that notwithstanding the deemed issue price of 10.7 cents per share, the actual booked consideration will be the share price of a Cervantes share at the date of issue. The last sale on 1 September 2003 was at 9 cents. As noted elsewhere, the actual fair value of a Cervantes share prior to the announcement of the INF proposal is, in our view, substantially less than 9 cents (and 10.7 cents). Arguably, a discount to the share prices may be applied (say 20%) to reflect the fact that the number of shares to be issued is disproportionate to the volume of shares traded in Cervantes on the Australian Stock Exchange ("ASX").

- 1.3 Under Section 606 of TCA, a person must not acquire a relevant interest in issued voting shares in a company if because of the transaction, that persons or someone else's voting power in the company increases:

- (a) From 20% or below to more than 20%; or
- (b) From a starting point that is above 20% and below 90%.

Under Section 611 (Item 7) of TCA, section 606 does not apply in relation to any acquisition of shares in a company approved by resolution passed at a general meeting at which no votes were cast in favour of the resolution by the acquirer or the disposer or their respective associates. An independent expert is required to report on the fairness and reasonableness of the transaction pursuant to a section 611 (Item 7) meeting.

- 1.4 The issue of up to 57,527,778 consideration shares to INF would result in INF holding approximately up to 47.50% of the expanded ordinary issued capital of the Company. Accordingly, an Independent Expert's Report is required pursuant to a Section 611 (Item 7) meeting. Stanton Partners Corporate Pty Ltd has been requested by the Directors of Cervantes to prepare an Independent Expert's Report to assist the shareholders of Cervantes in determining whether to vote for or against Resolution 1 as outlined in the Notice to Shareholders relating to the proposed issue of up to 57,527,778 consideration shares in Cervantes to INF.

- 1.5 Apart from this introduction, the report considers the following:

- Summary of opinion
- Implications of the proposals
- Corporate history and nature of business
- Future directions of Cervantes



- Basis of valuation of Cervantes
- Basis of valuation of INF Business
- Premium for control
- Fairness and reasonableness of the proposals
- Conclusion as to fairness and reasonableness
- Sources of information
- Appendix A

2. Summary of Opinion

- 2.1 In determining the fairness and reasonableness of the proposal pursuant to Resolution 1, we have had regard to the guidelines set out by the Australian Securities and Investments Commission (“ASIC”) in its Policy Statements 75 and 74.

Policy Statement 75 states that an opinion as to whether an offer is fair and/or reasonable shall entail a comparison between the offer price and the value that may be attributed to the securities under offer (fairness) and an examination to determine whether there is justification for the offer price on objective grounds after reference to that value (reasonableness).

Policy Statement 74 states that in all cases, where an acquisition of shares by way of an allotment is to be approved by shareholders pursuant to Section 611 (Item 7) of TCA, it is desirable to commission a report by an independent expert stating whether or not the proposal is fair and reasonable having regard to the interests of the shareholders other than the proposed allottee (in this case INF) and whether a premium for potential control is being paid by the allottee. Policy Statement 74 also provides that such allotment should involve a comparison of the advantages and disadvantages likely to accrue to non-associated shareholders if the transaction proceeds or if it does not.

Accordingly, our report relating to Resolution 1, is concerned firstly with the fairness and reasonableness of the proposal with respect to the existing non-associated shareholders of Cervantes, and secondly whether the price payable to potentially obtain a significant interest includes a premium for control.

- 2.2 In our opinion:

The proposal as outlined in Resolution 1 that would allow INF to be issued up to 57,527,778 consideration shares in Cervantes is considered, on balance, to be **fair and reasonable** to the non-associated shareholders of Cervantes.

The opinion expressed above is to be read in conjunction with the more detailed analysis and comments made in this report.

3. Implications of the Proposals

- 3.1 If the HOA is consummated and shareholders approve Resolution 1, Cervantes will issue up to 57,527,778 fully paid ordinary shares to INF, a company 100% owned by a Japanese public company, Chunagon Co Ltd (“Chunagon”). The deemed issue price is 10.7 cents per share, however under Australian accounting standards, the booked



issue price will be the price of a Cervantes publicly quoted share at the date of issue (and possibly discounted if the consideration shares are deemed restricted securities under ASX listing rules). Furthermore, as the issue of the shares is disproportionate to the volume of shares traded on the ASX, a discount could be applied. A discount of around 20% may be appropriate.

Under the HOA, INF is selling its lobster processing and marketing business and the assets and liabilities being sold to Cervantes are noted in section 1.2 of this report. Further details on the assets and liabilities and business of INF are outlined elsewhere in this report and the Explanatory Statement to Shareholders accompanying the Notice. The processing licence is owned by INF and is not being sold. Under the HOA, INF and Cervantes will negotiate in good faith to enter into appropriate commercial arrangements with regard to the use of the processing licence.

- 3.2 Currently, the number of shares on issue in Cervantes totals 63,583,334 and as at 25 August 2003, the top 10 shareholders are disclosed as:

	No. of ordinary shares	% of issued capital
San Tiong Ng	4,376,557	6.88
Lawrence Alexander West	3,967,388	6.24
Kheng Sing Lim	3,888,562	6.12
MDM Tee Lian	3,736,350	5.88
Chen Hoong	3,736,349	5.88
Nai Holdings Pty Ltd	2,800,117	4.40
Dr Chin Vie Yap	2,740,000	4.31
Sac Nominees Pty Ltd	2,729,500	4.29
Eng Hong Tan	1,750,000	2.75
Hoong Chen	1,483,000	2.33
	31,207,823	49.08

The top 20 shareholders control 63.00% of the capital. If Resolution 1 is passed and consummated, the number of shares on issue increases to up to 121,111,112 of which INF would own approximately up to 47.50%. All other existing shareholders interests would be reduced to as low as 52.50% (albeit of an expended Cervantes business).

- 3.3 Cervantes currently has 40,486,111 share options outstanding, exercisable at 20 cents per share, on or before 31 August 2005.
- 3.4 Mr Paul Rengel (an Australian Chartered Accountant) and a yet to be named nominee of INF/Chunagon will be appointed to the Board of Directors to represent the interests of Chunagon and INF. Resolution 2 relates to the appointment of Mr Rengel as a director of Cervantes.
- 3.5 A pro-forma Statement of Financial Position that incorporates 30 June 2003 Cervantes unaudited assets and liabilities and INF unaudited assets and liabilities acquired as at 30 July 2003 (as adjusted) is disclosed under section 9.1 of this report.



4. Corporate History and Nature of Business

Cervantes

- 4.1 Cervantes is listed on the Industrial Board of the Australian Stock Exchange (“ASX”) and operates a lobster trading business operating out of Cervantes.
- 4.2 Cervantes was incorporated as a public company in August 2001. In August 2002, the Company issued 18,166,666 shares to promoters to raise \$1,817. In September 2002, the Company issued 7,950,000 shares, 1,100,000 of which were issued to extinguish a debt of \$165,000. In September 2002 the Company entered into a sales agreement to acquire certain assets from Tarana Corporation Pty Ltd (“Tarana”) for a purchase consideration of \$2,100,000 (10,000,000 shares at 5 cents each plus \$1,600,000 cash). The Company has entered into a supply agreement with Tarana to purchase rock lobster for an 8 year period. As part of the listing process of Cervantes, a further 18,716,617 shares were issued to mezzanine investors at 15 cents each to raise \$2,807,500 and 3,000,000 shares were issued to capital advisers. The company issued 8,750,000 shares pursuant to a prospectus at 20 cents each and obtain quotation on the ASX on 6 November 2002.
- 4.3 Unfortunately, due to poor market conditions in the Western Australia rock lobster industry, Cervantes has incurred unaudited losses to 30 June 2003 of approximately \$4,260,000 (after write down of goodwill to nil of \$626,000). Unaudited operating revenue for the year ended 30 June 2003 approximated \$9.5 million.

INF

- 4.4 INF runs a lobster processing and marketing trading business in Western Australian and operates out of Osborne Park in Perth. In the 2002/03 lobster-catching season that finished on 30 June 2003, (a lobster catching season runs from 15 November to 30 June), INF achieved an unaudited operating revenue of approximately \$13.7 million. INF uses four receival depots in Fremantle, Jurien Bay, Yanchep and Lancelin.
- 4.5 We have relied on Cervantes undertaking the necessary due diligence to satisfy themselves on:
- Ownership of INF and the assets and business to be acquired by Cervantes from INF;
 - Reasonableness of the disclosed earnings before interest and tax prepared by INF management;
 - No unrecorded liabilities in the books of INF;
 - The obligations under various agreements;
 - Current legal directors of INF; and
 - Other factors that may affect ultimate ownership in and value of the INF business and the assets and liabilities of INF being acquired by Cervantes.

We have been informed that all necessary due diligence has been completed to the best of ability of the Cervantes directors. However, no guarantee can be given as to the long- term value of the INF business.



- 4.6 Further details on the INF business and the assets and liabilities to be acquired are outlined elsewhere in this report and the Explanatory Statement to Shareholders accompanying the Notice of Cervantes.

5. Future Directions of Cervantes

- 5.1 The Directors of the Company, at the time of preparation of this report, are not aware of any proposals currently contemplated whereby Cervantes will acquire any additional property or assets from INF or Chunagon or where Cervantes is to transfer any of its property or assets to INF or Chunagon, other than for the transactions under the HOA.
- 5.2 The Board of Directors of Cervantes will change as noted in paragraph 3.4 above.
- 5.3 No dividend policy has been set and is not proposed to be set until such time as the Company is profitable and has a positive cash flow.
- 5.4 The Company will continue to operate the existing lobster marketing business but will have expanded operations, including a lobster processing facility in Osborne Park via the acquisition of the business of INF. Cervantes is investigating the possibility of acquiring Bluewave Seafood Limited, a lobster processing business, as announced to the ASX on 2 September 2003, however no decision has been made at the date of this report.
- 5.5 The Company is considering the raising of further working capital and may issue up to 15,000,000 shares as noted in Resolution 3 in the Notice.

6. Basis of Valuation of Cervantes

- 6.1 In considering the proposal as outlined in Resolution 1, we have sought to determine if the potential consideration payable by Cervantes (via up to 57,527,778 consideration shares) to INF is fair and reasonable to the existing non associated shareholders of Cervantes. The proposal pursuant to Resolution 1 would be fair to the existing non-associated shareholders if the value of the consideration offered by Cervantes is less than the value of the business and net assets being acquired from INF. Accordingly, we have sought to determine a theoretical value that could reasonably be placed on the Cervantes shares for the purposes of this report.
- 6.2 The valuation methodologies we have considered in determining the current technical value of a Cervantes share are:
- Capitalised maintainable earnings/discounted cash flow;
 - Takeover bid - the price which an alternative acquirer might be willing to offer;
 - Adjusted net asset backing and windup value; and
 - The weighted market value price of Cervantes shares.



6.3 Capitalised maintainable earnings/discounted cash flows

The unaudited financial statements of Cervantes, discloses a loss of \$4,260,000 for the year ended 30 June 2003. As the lobster catching season in Western Australia has ceased (30 June 2003), losses are expected to continue until such time as the 2003/04 season starts in mid November 2003. The profit forecasts and cash flow budgets have yet to be finalised for the 2003/04 season (although the Cervantes directors believe the Company will be profitable in 2003/04 following an extremely poor 2002/03 season in the WA lobster processing and marketing industry). Due to Cervantes current state of affairs, the lack of a profit history arising from its current business undertakings and the immediate lack of a reliable future cash flow forecast, we have considered these methods of valuation not to be relevant for the purposes of this report.

It is our view that the market price approach and net asset backing approach are more appropriate in these circumstances to place a value on Cervantes for the purposes of this report.

6.4 Takeover Bid

We have been advised by the Directors of Cervantes that they do not believe that there would be any person or entity with an interest in taking over the Company by way of a formal takeover bid. To our knowledge, there are no current bids in the market place and the Directors of Cervantes have formed the view that there is unlikely to be any takeover bids made for Cervantes in the immediate future.

6.5 Net asset backing and windup value

6.5.1 As there is no intention to wind up the Company, we have not considered wind up values for the purposes of this report.

6.5.2 We set out below, the unaudited Statement of Financial position of Cervantes as at 30 June 2003.

Cervantes	
30 June 2003	
\$	
Current Assets	
Cash assets	156,708
Receivables	539,033
Inventories	388,064
Prepayments (including prepaid lease fees to Tarana)	291,630
	<u>1,375,435</u>
Non Current Assets	
Fixed assets - plant and equipment	1,453,077
	<u>1,453,077</u>
Total Assets	<u>2,828,512</u>



Cervantes
30 June 2003
\$

Current Liabilities

Payables	669,921
Interest bearing liabilities	180,779
	850,700

Non Current Liabilities

Interest bearing liabilities	783,575
	783,575

Total Liabilities

	1,634,275
Net Assets	1,194,237

Represented by:

Equity

Contributed equity	5,456,368
Accumulated losses	(4,262,131)
Net Equity	1,194,237

- 6.5.3 Assuming that the net assets of Cervantes could realise their net book values as at 30 June 2003 as adjusted of \$1,194,237 this would equate to a value per share of approximately 1.87 cents per share (based on 63,583,334 ordinary shares on issue). The above net asset position is after providing for doubtful debts (due by fishermen) of \$588,932. If the debts were received, the net asset backing per share would increase to approximately 2.80 cents as at 30 June 2003. The net asset position has probably deteriorated from 30 June 2003 due to losses incurred subsequent to such date.

6.6 Market price of Cervantes shares

- 6.6.1 We set out below a summary of the fully paid share prices of the Company since 1 January 2003 to 10 July 2003 (the date of the announcement of a trading halt).

2003	High Cents	Low Cents	Last Sale Cents	Volume Trade (000's)
January	18.5	16.0	16.0	2,428
February	16.0	10.0	12.5	482
March	13.5	10.0	11.0	852
April	10.0	7.0	8.0	466
May	9.0	6.0	8.5	296
June	8.0	5.0	5.0	635
July (to 10 th)	7.0	6.0	7.0	97



- 6.6.2 The share price since listing has steadily declined and dropped considerably (on relatively low volumes) in May 2003 after a 1 May 2003 announcement of poor trading conditions and extent of trading losses to 31 March 2003. The weighted average share price since April 2003 to 10 July 2003 has been calculated at 6.7 cents.

It is noted that since the announcement of the proposal with INF on 14 July 2003 (the Company did not trade between 11 July 2003 and 14 July 2003) the shares have traded in the range of 8.5 cents to 10.5 cents (last sale 1 September 2003, 9.0 cents). Arguably, the increase in share price (on very low volumes) is due to the market taking a positive response to the INF proposal. As at 1 September 2003, there was a bid at 9.0 cents and an asking price of 10.0 cents.

- 6.6.3 Generally, the market is a fair indicator of what a share is worth, however the theoretical technical value based on the underlying value of assets and liabilities may be lower or higher.

The future value of a Cervantes share will depend upon, inter alia:

- The future prospects of the existing Cervantes lobster marketing operations in future seasons and the future prospects for the INF lobster processing and marketing operations (if acquired).
- The state of the lobster markets in Australia and overseas;
- The state of Australian and overseas stock markets;
- The Board of Directors and Senior Management;
- General economic conditions; and
- Liquidity of shares in Cervantes.

- 6.7 It is our view that taking into account the net asset backing as noted under paragraph 6.5.3 and the mid July 2003 market value of a share in Cervantes, for the purposes of this report the fair value consideration lies between 1.87 cents and 7 cents. This is based on the premise that the range of values is pre the announcement of the proposal with INF. For the purposes of this report we have used a market based methodology to ascribe values to the up to 57,527,778 shares to be issued to INF and consider the pre announcement prices of between 5 cents and 7 cents to be reasonable. However, arguably the 1.87 cents net asset backing also could be used for the purposes of assessing the fairness and reasonableness of the proposal. We have used the 1.87 cents net asset backing as the assessed “low” consideration in issuing up to 57,527,778 shares to INF. It is our view, that in the absence of a proposal such as the INF proposal, the share price of a Cervantes share could fall below 7 cents.

7. Basis of Valuation of The Business of INF being acquired

- 7.1 The valuation methodologies we have considered in determining the current value of the business of INF are as follows:

- Capitalised maintainable earnings/discounted cash flow;
- Takeover bid - the price which an alternative acquirer might be willing to offer; and
- Adjusted net asset backing and windup value.



7.2 Capitalised maintainable earnings/discounted cash flows

7.2.1 As noted in the unaudited financial statements of INF for the following periods, the Revenue from operating activities and adjusted Earnings before Interest and Tax ("EBIT") have been as follows:

	Revenue \$	Adjusted EBIT \$
8 months to 31 July 2003	14,340,483	318,000
Year ended 30 November 2002	14,573,008	375,000
Year ended 30 November 2001	13,694,184	567,000
Year ended 30 November 2000	19,900,806	570,000
Year ended 30 November 1999	14,293,779	514,000

The adjustments by the management of INF mainly relate to abnormal gains and losses on a foreign exchange contract entered into with INF's bankers' that was closed out in 2002. Gains and losses on foreign exchange transactions relating to normal trading have not been adjusted.

7.2.2 We have been provided a preliminary profit and loss budget for the three months to 31 October 2003 that discloses budgeted losses (EBIT's) of \$240,000. Thus, using the actual and budgeted EBIT, the EBIT to 31 October 2003 is expected to approximate \$78,000. It is noted that the EBIT estimate of \$78,000 for the eleven months ended 31 October 2003 is positive in a year that many lobster processors and marketers incurred losses or had severely reduced profits compared with prior years. No adjustment was made for the month of November 2003 as the Lobster season commences on 15 November 2003 and it is not practical to estimate the profit or loss for November 2003 split between the past year and future year.

7.2.3 Capitalisation of earnings involves capitalising, or multiplying the earnings of a business using a multiple that reflects both the risks underlying the earnings and the growth prospects of the business. This methodology requires consideration of the following factors:

- Estimates of future maintainable earnings having regard to historical and forecast operating results, abnormal or non recurring items of income and expenditure and other factors, including key industry risk factors, growth prospects and the general economic outlook.
- Determination of an appropriate earnings- multiple that reflects risks, interests in the business, its growth prospects and alternative investment opportunities available. Earnings multiples are generally applied to net profits after tax ("NPAT"), EBIT and earnings before interest, tax, depreciation and amortisation ("EBITDA")
- An adjustment for any surplus assets and liabilities to be acquired and a deduction for the amount of financial debt to be assumed (if an entity was being acquired).



- 7.2.4 The average annual EBIT over the period noted above approximates \$421,000. The “low” EBIT has been set at \$375,000 using the adjusted EBIT for the year ended 30 November 2002 and the “high” EBIT is calculated at \$550,000 being the average of the three years EBIT’s to 30 November 2001. We have used the average 5-year EBIT as the preferred maintainable EBIT, notwithstanding that preliminary forecasts by INF management disclose an EBIT for the year ended 30 June 2004 at over \$500,000.
- 7.2.5 The discounted cash flow (“DCF”) methodology is based on the net present value of cash flows expected to be generated from future activities. The projected cash flows are discounted to a present day value by a discount rate that reflects both the time value of money and the risks inherent in the cash flows. Normally DCF methodology is appropriate for valuing businesses with a finite life, in a start up phase, and expecting considerable volatility in earnings or businesses with a changing cash flow over time. In our view using DCF is not appropriate to value the business of INF.
- 7.2.6 It was noted that when Cervantes issued its initial public offering (“IPO”) prospectus last year, the proposed market capitalisation was approximately \$12.717 million and the forecasted Price/EBIT ratio was approximately 10. The brokers to the issue at the time were satisfied that a 10 times EBIT was suitable to place a value on Cervantes. If this ratio was applied to the average EBIT of INF as noted above, the enterprise value of the INF business would equate to \$4,210,000 (range \$3,750,000 to \$5,500,000). Using a more conservative ratio of say 8 results in an enterprise value of between \$2,105,000 and \$3,368,000 using the preferred maintainable EBIT.
- 7.2.7 Using the above enterprise ranges, the valuation of goodwill would be as follows:

	Preferred Value \$ (8 times EBIT)	High Value \$ (10 times EBIT)
Enterprise Value	3,368,000	5,500,000
Less tangible assets (including land, buildings, plant, investments net working capital and pot licences (refer 7.4 below) (refer (i) below)	<u>(4,190,000)</u>	<u>(4,230,000)</u>
Value of goodwill	<u>nil</u>	<u>1,270,000</u>

For details on tangible assets, refer section 7.4 of this report. The minimum net tangible assets may be around \$3,914,000 on a going concern basis and thus arguably the minimum value of the INF business being acquired is \$3,914,000.

- (i) Assumes net current assets of \$2,000,000. As noted in paragraph 9.1, the working capital as at 31 July 2003 as adjusted is estimated to be \$1,409,000.



7.2.8 As the business is being acquired (and not the entity, INF Pty Ltd), we are of the view that utilising an 8 times EBIT is reasonable, however note that using a 10 times EBIT on the preferred EBIT results in an enterprise value of \$4,210,000.

7.3 Takeover bid

We have been advised by management of INF, that they do not believe that there would be any person with an interest in taking over INF, by way of a formal takeover bid (except Cervantes), in the near future. To our knowledge, there are no current bids (except Cervantes) in the market place.

7.4 Net asset backing and windup value

7.4.1 As there is no intention to wind up INF, we have not considered wind up values for the purposes of this report.

7.4.2 The net tangible assets to be acquired are described as follows:

Land and buildings (at independent valuation)	\$1,750,000
Plant and equipment (at written down values)	\$200,000
8 Lobster Pot licenses	\$240,000
Net working capital	\$2,000,000
	<u>\$4,190,000</u>

7.4.3 The land and buildings are in Osborne Park. The 30 June 2003 carrying value in the books of INF is \$1,763,771 however an independent valuation by a licensed valuer in December 2002 has ascribed a fair market value of \$1,750,000 on an 'as is' basis and \$1,490,000 on a vacant possession basis. As it is the intention to continue the INF business at Osborne Park, it is fair to use the "as is" basis for the purpose of this report. The low valuation would be \$1,490,000.

7.4.4 The plant and equipment is at the tax written down values. We have accepted the written down tax values on face value (Refer paragraph 7.4.8).

7.4.5 INF has 8 "C" class Lobster Pot Licences that have a cost to INF of \$200,000 (\$25,000 per licence). The "going" market rate is currently between \$28,000 and \$35,000. The low figure would be \$224,000 and the high figure \$280,000 with a preferred valuation of \$240,000.

7.4.6 Under the HOA between Cervantes and INF, INF has agreed that net working capital will be a minimum of \$2,000,000 at the date of acquisition of the business. The net working capital will comprise of receivables, inventory, cash at bank, less creditors and accruals and employee entitlement liabilities.

As noted elsewhere, if the working capital is less than \$2,000,000, the number of shares to be issued would be reduced. Using the 31 July 2003 (as adjusted) estimate of \$1,409,000 (refer paragraph 9.1), the number of shares to be issued would be reduced to 52,004,414.



- 7.4.7 As referred to under paragraph 7.2.7, the goodwill may fall in the range of nil to \$1,270,000.
- 7.4.8 Based on the above, the fair value of net assets acquired assuming \$2,000,000 net working capital falls in the range of \$3,914,000 to \$5,500,000, of which \$4,190,000 is represented by tangible net assets. However, the net tangible asset figures is after allocating \$200,000 to the plant and equipment of INF. From discussions with the Western Australian Manager of INF, the replacement value of the plant may fall in the range of \$4 million to \$5 million and that on a going concern basis (but not necessarily a realisable value basis), the plant would be worth at least \$1,500,000. We have been advised by INF that, although, much of the plant is old, they are maintained in good working order. The directors of Cervantes considered this matter and took into account 'going concern' values when calculating the consideration to be paid to INF. However, it was agreed with INF that tax written down values of approximately \$200,000 would be used in allocating the total purchase consideration. This has the effect of under valuing the plant and equipment and overstating any perceived goodwill. We have been advised by Cervantes that the INF plant and equipment may be formally revalued after the INF proposal is consummated.
- 7.5 After taking into account the matters referred to in the preceding paragraphs, we are of the view that the current theoretical value of the business of INF falls in the range of \$3,914,000 to \$5,500,000.

8. Premium for Control

- 8.1 Premium for control for the purposes of this report, has been defined as the difference between the price per share, which a buyer would be prepared to pay to obtain or improve a controlling interest in the Company and the price per share which the same person would be required to pay per share, which does not carry with it control or the ability to improve control of the Company.
- 8.2 Under TCA, control may be deemed to occur when a shareholder or group of associated shareholders control more than 20% of the issued capital. In this case, INF would own 47.50% of the issued capital of Cervantes if the proposal pursuant to Resolution 1 is passed and consummated. Accordingly, we have addressed whether a premium for control will be paid for the ordinary shares issued to INF.
- 8.3 The value of the INF business falls in the range of \$3,914,000 to \$5,500,000 whilst Cervantes is offering as consideration up to 57,527,778 Cervantes ordinary shares, which have a fair market value (prior to the announcement of the proposal with INF) of between \$2,876,388 and \$4,027,000. On a Cervantes net asset-backing basis, the consideration payable by Cervantes is \$1,075,769. Therefore INF may be considered to be 'paying more' for their Cervantes shares than the adjusted current market value, which is deemed the price payable by investors not receiving a controlling interest. In our opinion, it is possible that INF is paying a premium for control, however, the non-associated shareholders of Cervantes are benefiting in that the theoretical net book value of a Cervantes share rises from 1.87 cents (with arguably high debt levels) to a company with a theoretical net book value of over 4 cents.



9. Pro-forma Statement of Finance Position

- 9.1 We set out below an unaudited pro-forma statement of Financial Position of Cervantes as at 30 June 2003 assuming the acquisition of the INF lobster processing and marketing business for the issue of 57,527,778 shares in Cervantes at an issue price of 7 cents (last sale prior to the announcement to acquire the INF business) plus the costs of stamp duty of \$257,505 for a total consideration of \$4,284,450 (refer paragraph 10.1).

The INF net assets acquired are allocated as follows:

	\$ (Rounded)
Cash	785,000
Receivables/ prepayments	510,000
Inventories	750,000
Pot licence	240,000
Goodwill	685,450
Land and buildings	1,750,000
Plant	200,000
Employee entitlements	(147,000)
Payables	(44,000)
Unearned income	(445,000)
	<u>\$4,284,450</u>

The net working capital based on the above figures is \$1,409,000.

This estimate is based on the 31 July 2003 unaudited figures and adjusted for forecasted cash flow movements between 1 August 2003 and 31 October 2003. The forecasted information was provided by INF's management. The actual net asset position may be different at the actual date of acquisition.

No adjustment has been made to reduce the number of consideration shares from 57,527,778. The resultant effect is to increase the goodwill figure on consolidation. At Cervantes discretion, the number of shares to be issued to INF can be reduced if the working capital is less than \$2,000,000. The forecasted working capital based on the above figures approximates \$1,409,000. If the number of consideration shares were reduced, based on a net working capital of \$1,409,000 the number of consideration shares issued would be reduced by 5,263,364 to 52,004,414.



Adjusted Pro-forma Statement
of Financial Position
30 June 2003
\$000's

Current Assets	
Cash assets	942
Receivables	996
Inventories	1,138
Prepayments	345
Total Current Assets	<u>3,421</u>
Non Current Assets	
Plant and equipment	1,653
Land and buildings	1,750
Lobster pot licences	240
Goodwill	685
Total Non Current Assets	<u>4,328</u>
Total Assets	<u>7,749</u>
Current Liabilities	
Payables	971
Unearned income	445
Interest bearing liabilities (secured)	181
Provisions	147
Total Current Liabilities	<u>1,744</u>
Non Current Liabilities	
Interest bearing liabilities (secured)	784
Total Non Current Liabilities	<u>784</u>
Total Liabilities	<u>2,528</u>
Net Assets	<u>5,221</u>
Represented by:	
Equity	
Contributed equity	9,483
Accumulated losses	(4,262)
Total Equity	<u>5,221</u>

- 9.2 The number of shares in issue would be 121,111,112, and thus the unaudited book value per share would equate to 4.31 cents (3.74 cents ignoring goodwill).

If 52,004,414 consideration shares were issued, the net asset backing per share would approximate 4.18 cents (3.92 cents ignoring goodwill of \$41,309). The number of shares on issue would be 115,587,748.



10. Fairness and Reasonableness of the Proposal

- 10.1 As noted above, we have assumed the fair values (range) of Cervantes and compared the value to the range of fair values for the INF business.

The 'accounting cost' to Cervantes of issuing the 57,527,778 consideration shares is deemed to lie in the range of:

	Low \$	Preferred \$	High \$
57,527,778 ordinary share	1,075,769	4,026,945	6,155,472
Stamp Duty (estimated)	257,505	257,505	257,505
	<u>1,333,274</u>	<u>4,284,450</u>	<u>6,412,977</u>

The low value assumes a value of a Cervantes share at 1.87 cents (net asset backing at 30 June 2003) and the high value assumes the deemed contractual price of 10.7 cents. If 9 cents was used (the last sale price of a Cervantes share on 1 September 2003), the total "cost" would approximate \$5,435,005).

If only 52,004,414 consideration shares were issued, the "accounting cost" (not necessarily the fair value of a Cervantes share) would lie in the range of \$1,229,097 (low) to \$5,821,988 (high) with a preferred cost of \$3,897,814.

The range of fair values of the INF business being acquired falls in the following range:

	Low \$000's	Preferred \$000's	High \$000's	
Net working capital	1,409,000	1,409,000	2,000,000	(i)
Land and building	1,490,000	1,750,000	1,750,000	
Plant and equipment	200,000	200,000	200,000	
Pot Licences	224,000	240,000	280,000	
Goodwill	Nil	-	1,270,000	
	<u>3,323,000</u>	<u>3,599,000</u>	<u>5,500,000</u>	

As noted under paragraph 7.4.8 the 'as is' value of the plant and equipment may be at least \$1,500,000. However, contractually, Cervantes has agreed to acquire the plant and equipment for \$200,000.

- (i) It is estimated that the net working capital will be around \$1,409,000. The \$2,000,000 figure is the HOA estimate of working capital in INF. The number of shares to be issued may be reduced to around 52,004,414 shares and if this was the case, the goodwill on the high basis would increase to around \$1,592,000. If \$1,500,000 was ascribed to the fair value of plant, the high goodwill figure would reduce to around \$292,000.



Advantages

- 10.2 The Company is acquiring a business that apart over the past four years has positive adjusted EBIT's including a small positive EBIT in the 2002/03 season that was an extremely difficult season for the WA lobster industry.
- 10.3 The merger should at least double the catch-base per season to over 900 tonnes. Additionally, the turnover of Cervantes will increase significantly to (based on the 2002/03 season) around \$25 million. The expansion of the business should improve the costs and operational structure of Cervantes.
- 10.4 The expanded catch-base should assist Cervantes in the use of optimising the processing arrangements. The Company will have a processing facility in Osborne Park and via the current arrangement with Tarana Corporation, leases a processing facility in Cervantes. The lobster processing licence of INF is owned by INF and according to Cervantes and INF management, the licence is to be leased to Cervantes.
- 10.5 The expanded catch-base and working capital resources will improve the Company's ability to retain existing boats and fishermen and at the same time, enhance its control over this important supply factor.
- 10.6 Cervantes is gaining approximately \$1.4 million in new working capital, plus the security of land and buildings for no initial cash outlay as shares are being issued. Cervantes own working capital is extremely low and the influx of new working capital will greatly assist the Company. The land and buildings can be offered as security to its bankers if necessary.
- 10.7 The Board of Directors will be expanded to include Mr Paul Rengel who brings to the Cervantes board breath of experience in the corporate finance industry. It is expected that the other yet to be named director of Cervantes nominated by INF and Chunagon will have relevant experience in the lobster industry. Furthermore, the senior operational staff of INF will remain with the business.
- 10.8 The next asset position of the Company increases from 1.87 cents (at 30 June 2003) to over 4 cents. More importantly, the current ratio increases from 1.67 to 1 to 1.96 to 1.

Disadvantages

- 10.9 There is a substantial increase in the number of shares on issue from 63,583,334 to up to 121,111,112 and the existing shareholders interests are diluted from 100% to 52.5%, albeit in a larger and arguably financially stronger company. Using the adjusted 31 July 2003 estimated working capital of \$1,409,000 the INF shareholding in Cervantes could be 45.02%.
- 10.10 If the deemed issue price of 10.7 cents were used to book the INF business acquisition, the booked cost would be \$6,412,977 (including stamp duty costs) of which goodwill would be approximately \$2,223,000. This is greater than our assessed value of between \$3,323,000 and \$5,500,000.



- 10.11 It is noted that the goodwill would be written off over a maximum period of five years and the annual amortisation that would affect reported results is \$137,000 on the basis of issuing all of the consideration shares. The goodwill, if the acquisition was booked at 9 cents (last sale price on 1 September 2003) would approximate \$1,836,000. The annual amortisation of goodwill would then be around \$367,000. These figures assume \$1,409,000 working capital but the issue of the maximum of 57,527,778 consideration shares. The actual goodwill would alter if a lesser number of consideration shares were issued.

Other Factors

- 10.12 Cervantes needs further working capital to continue in business. The proposal with INF allows Cervantes to raise an effective \$1,409,000 in new net working capital, plus have the additional benefits of obtaining freehold land and buildings, a processing plant and 8 lobster pot licences. The \$1,409,000 net working capital alone is arguably being undertaken at 6.25 cents per share on the basis of:

$$\frac{\text{Net Tangible Assets acquired } (\$3,599,000)}{\text{No. of shares being issued (up to 57,527,778)}} = 6.25 \text{ cents (6.92 cents if 52,004,414 shares issued)}$$

This ignores the value of any goodwill. If \$2,000,000 working capital were available, the figure would be 7.28 cents. In the current circumstances of Cervantes, and taking into account the share price in the month before the announcement of the INF proposal, it is unlikely that Cervantes could easily have raised funds at 6 cents to 7 cents per share.

- 10.13 Subsequent to the announcement of the INF proposal, the market has reacted favourably to the proposal and the share price (albeit on relatively low volumes) has increased from 7 cents on 10 July 2003 to a share price of between 8.1 cents and 10.5 cents (last sale 1 September 2003, 9.0 cents).

11. Conclusion as to Fairness and Reasonableness

- 11.1 After taking into account the matters referred to in 10 above and elsewhere in this report, we are of the opinion that, on balance, the proposal as outlined in Resolution 1 (the issue of up to 57,527,778 consideration shares to acquire the INF business) is fair and reasonable to the non-associated shareholders of Cervantes.

12. Sources of Information

- 12.1 In making our assessment as to whether the proposal (that will allow Cervantes to issue up to 57,527,778 consideration shares to acquire the INF business) (Resolution 1) is fair and reasonable, we have reviewed relevant published available information and other unpublished information of Cervantes and INF that is relevant in the current circumstances. In addition, we have held discussions with directors of Cervantes and the general manager and corporate adviser of INF regarding the present and future operations of the businesses of Cervantes and INF. Statements and opinions contained in this report are given in good faith, but in the preparation of this report, we have relied in part on information provided by the Directors of Cervantes and personnel of INF.



12.2 Information we have received includes, but is not limited to:

- Draft September 2003 Notice of General Meeting of Shareholders of Cervantes;
- Draft Explanatory Statement to Shareholders of Cervantes prepared in September 2003;
- Annual Report of Cervantes for the year ended 30 June 2002;
- Audit reviewed consolidated accounts of Cervantes for the six months ended 31 December 2002 and unaudited financial statements of Cervantes for the year ended 30 June 2003;
- General information on Cervantes;
- Statements of financial position and statements of financial performance of INF for the years ended 30 November 1999, 2000, 2001 and 2002;
- Unaudited statement of financial position of INF for the period 1 December 2002 to 30 June 2003 and 1 December 2002 to 31 July 2003;
- Heads of Agreement of July 2003 between Cervantes and INF;
- Preliminary cash flow and profit and loss forecasts to October 2003 for INF;
- Details of shareholdings of Cervantes at 25 August 2003 and shareholding of INF as at 31 July 2003;
- ASX announcements for Cervantes to 2 September 2003;
- Share prices of Cervantes fully paid shares for the period 1 January 2003 to 1 September 2003;
- Discussions with one of the proposed directors of Cervantes, the general manager of INF and directors of Cervantes;
- Prospectus of Cervantes dated October 2002;
- Independent valuation report on the land and buildings owned by INF;
- Evidence on the value of Lobster pot licences as at July 2003;
- List of plant and equipment being sold by INF; and
- INF plans and other documentation on INF.

12.3 Our report includes Appendix A, attached to this report.

Yours faithfully

STANTON PARTNERS CORPORATE PTY LTD

John P Van Dieren, FCA
Director



APPENDIX A

AUTHOR INDEPENDENCE

This annexure forms part of and should be read in conjunction with the report of Stanton Partners Corporate Pty Ltd dated 10 September 2003, relating to Resolution 1 (allowing the issue of up to 57,527,778 consideration shares in Cervantes to acquire the business and certain net assets of INF) outlined in the Notice of Meeting of Shareholders of Cervantes.

At the date of this report, Stanton Partners Corporate Pty Ltd do not have any interest in the outcome of the proposals. Stanton Partners, an accounting/auditing firm that owns Stanton Partners Corporate Pty Ltd are the auditors and tax agents for Cervantes. There are no other relationships with Cervantes. There are no existing relationships between Stanton Partners Corporate Pty Ltd and the parties participating in the transactions detailed in this report which would affect our ability to provide an independent opinion. The fee to be received for the preparation of this report is based on the time spent at normal professional rates plus out of pocket expenses and is estimated not to exceed \$15,000. The fee is payable regardless of the outcome of the shareholders meeting of Cervantes. With the exception of that fee, neither Stanton Partners Corporate Pty Ltd or John Van Dieren have received, nor will, or may they receive, any pecuniary or other benefits, whether directly or indirectly for or in connection with the making of this report.

Stanton Partners Corporate Pty Ltd, Stanton Partners or any partners of Stanton Partners do not hold any securities in Cervantes. There are no pecuniary or other interests of Stanton Partners Corporate Pty Ltd that could be reasonably argued as affecting its ability to give an unbiased and independent opinion in relation to the proposal. Stanton Partners Corporate Pty Ltd and Mr John Van Dieren have consented to the inclusion of this report in the form and context in which it is included as an annexure to the Notice.

QUALIFICATIONS

We advise Stanton Partners Corporate Pty Ltd is the holder of an Investment Advisers Licence under the Corporations Act relating to advice and reporting on mergers, takeovers and acquisitions. A number of the partners of Stanton Partners are Directors of Stanton Partners Corporate Pty Ltd. Stanton Partners and Stanton Partners Corporate Pty Ltd have extensive experience in providing advice pertaining to mergers, acquisitions and strategic and financial planning for both listed and unlisted companies or businesses.

Mr John Van Dieren, FCA, the person responsible for the preparation of this report, has extensive experience in the preparation of valuations for companies and in advising corporations on takeovers generally and in particular on the valuations and financial aspects thereof, including the fairness and reasonableness of the consideration offered. Mr Van Dieren also holds an Investment Advisers Licence relating to the provision of expert reports on mergers, takeovers and acquisitions.

The professionals employed in the research, analysis and evaluation leading to the formulation of opinions contained in this report have qualifications and experience appropriate to the tasks they have performed.



DECLARATION

This report has been prepared at the request of the Directors of Cervantes in order to assist the shareholders of Cervantes to assess the merits of the proposals to which this report relates. This report has been prepared for the benefit of Cervantes and those persons only who are entitled to receive a copy for the purposes of Section 611 (Item 7) of the Corporations Act and does not provide a general expression of Stanton Partners Corporate Pty Ltd's opinion as to the longer term value of Cervantes or INF and the businesses of both. Stanton Partners Corporate Pty Ltd does not imply, and it should not be construed, that it has carried out any form of audit on the accounting or other records of Cervantes (for the year ended 30 June 2003) or INF (all periods referred to in the report). Neither the whole or any part of this report, nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement, without the prior written consent of Stanton Partners Corporate Pty Ltd to the form and context in which it appears.

DISCLAIMER

This report has been prepared by Stanton Partners Corporate Pty Ltd with due care and diligence. However, except for those responsibilities, which by law cannot be excluded, no responsibility arising in any way whatsoever for errors or omission (including responsibility to any person for negligence) is assumed by Stanton Partners Corporate Pty Ltd, Stanton Partners, its partners, employees or consultants for the preparation of this report.

DECLARATION AND INDEMNITY

Recognising that Stanton Partners Corporate Pty Ltd may rely on information provided by Cervantes and its officers (save whether it would not be reasonable to rely on the information having regard to Stanton Partners Corporate Pty Ltd experience and qualifications), Cervantes has agreed:

- a) To make no claim by it or its officers against Stanton Partners Corporate Pty Ltd to recover any loss or damage which Cervantes may suffer as a result of reasonable reliance by Stanton Partners Corporate Pty Ltd on the information provided by Cervantes; and
- (b) To indemnify Stanton Partners Corporate Pty Ltd against any claim arising (wholly or in part) from Cervantes or any of its officers providing Stanton Partners Corporate Pty Ltd any false or misleading information or in the failure of Cervantes or its officers in providing material information, except where the claim has arisen as a result of wilful misconduct or negligence by Stanton Partners Corporate Pty Ltd.

A draft of this report was presented to the Directors of Cervantes for a review of factual information contained in the report. Comments received relating to factual matters were taken into account, however the valuation methodologies and conclusions did not alter.