

CERVANTES SEAFOOD LIMITED



CERVANTES SEAFOOD LIMITED
(ABN 79 097 982 235)

2003 ANNUAL FINANCIAL REPORT

CERVANTES SEAFOOD LIMITED



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DIRECTORS' REPORT

The directors present their report together with the financial report of Cervantes Seafood Limited (the "Company") for the year ended 30 June 2003 and the auditors' report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mr Barry MacKinnon, AM, BEcon, FCPA, JP
Non-Executive Chairman - appointed 28 August 2001

Mr MacKinnon has a wide range of experience in corporate finance and business management. He is currently the principal of an independent consulting organisation in Western Australia, which provides political and business advice to a wide range of clients in the private and public sectors and is a fellow of the Australian Society of Certified Practising Accountants.

Mr Chen Hao
Managing Director - Appointed 19 August 2002

Mr Chen has over 20 years experience as a civil and marine engineer. He is the principal of a leading structural and marine engineering consultancy in Singapore. He has over six years experience operating an international seafood trading business, responsible for finances, sales and marketing, with a key emphasis on markets in China and Japan. Mr Chen is fluent in Mandarin and a number of Chinese dialects and has strong relationships with Cervantes Seafood's major buyers. Mr Chen has broad experience and specialist knowledge in key Asian seafood and marine markets. He holds a Masters degree in Science and is a member of the professional engineering institutions in the United Kingdom, United States, Australia, Singapore and Malaysia.

Mr Lawrence West
Executive Director - Appointed 19 August 2002

Mr West has considerable experience in business dealings in the seafood industry over a 10-year period. He has also managed other crayfish fishing operations. Mr West also operated a successful transport business in the West Australian goldfields for over 10 years.

Mr Blair Sergeant, BBus
Director - Appointed 28 August 2001; Resigned 19 August 2002

Mr Anthony Ho, BCom, CA
Director - Appointed 28 August 2001; Resigned 20 September 2002

Directors' Meetings

The number of directors' meetings and the number of meetings attended by each of the directors of the Company during the year ended 30 June 2003 are:

<u>Director</u>	<u>Board Meetings</u>	
	<u>Held</u>	<u>Attended</u>
Mr B MacKinnon	15	15
Mr Chen Hao	13	13
Mr L West	13	11
Mr B Sergeant	2	1
Mr A Ho	2	2

There is presently no audit committee, as the directors prefer all audit issues to be addressed by the full Board.



DIRECTORS' REPORT (CONT'D)

Principal Activity

The principal activity of the Company during the year ended 30 June 2003 was the marketing and distribution of premium seafood products.

Results

The Company incurred a loss of \$4,260,494 after income tax for the year ended 30 June 2003 (2002: loss of \$2,023).

Review of Operations

The Company was admitted to the Official List of ASX in November 2002 following a capital raising of an aggregate amount of approximately \$5m (net of costs). This milestone event coincided with the start of the 2002/03 Lobster Season.

The Company's operations in the year under review have been dominated by activities associated with the 2002/03 Lobster Season (the "Lobster Season") in Western Australia. The trading results for the year have been adversely affected by high beach prices for the product during the Lobster Season and generally depressed buying markets of Japan and China due to occurrences such as the SARS epidemic. The global uncertainty emanating from the Middle East unrest has had a dampening effect on the demand for lobsters.

The rise in the strength of the Australian dollar during the year has also adversely affected the profit margin for Australian seafood exporters such as Cervantes Seafood. This factor had a further negative effect on the costs of our products to buyers relative to prior years. It had the result of causing our traditional buyers to substitute our products with the inferior, but lower cost and better margin products sourced from Cuba, Mexico and Florida.

The Company's operations were also interrupted by a fire which occurred in the Cervantes township in December 2002 which restricted supply of electricity to our plant for a period of time during the busiest period of the season.

Dividends

No dividend has been declared or paid by the Company to the date of this report.

State of Affairs

Significant changes in the state of affairs of the Company during the financial year were:

- The admission of the Company to the Official List of ASX in November 2002 following a capital raising of an aggregate amount of over \$5m (net of costs).
- The adverse trading conditions encountered in the 2002/03 Lobster Season resulting in the review of merger opportunities (refer to Subsequent Event Note in the attached Financial Statements).

Events Subsequent to Balance Date

Other than the matters described in Note 24 of these financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.



DIRECTORS' REPORT (CONT'D)

Likely Developments

The Company will continue to progress the INF merger proposal as outlined in Note 24 in the attached financial statements. It will also continue to develop its activities as a distributor of premium seafood products.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosure of such information would likely result in unreasonable prejudice to the Company.

Directors' and Senior Executives' Emoluments

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Board members and senior executives of the Company. Broadly, the Company's remuneration policy is to ensure that any remuneration package properly reflects the person's duties and responsibilities and that it is competitive in attracting, retaining and motivating people of the highest quality.

Details of transactions with related parties are contained in Note 17 to the Financial Statements.

Options

During the year, the Company granted options over 40,486,111 unissued ordinary shares. The options are exercisable at a price of 20 cents per share at any time up to and including their expiry date of 31 August 2005. None of the options were exercised during the year and all remain outstanding at 30 June 2003.

These options do not entitle the holder to participate in any share issue of the Company or any other entity.

Indemnification and Insurance of Officers

Indemnification

The Company has agreed to indemnify the current directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

As at the date of this report no insurance policies have been entered into.

Dated at Perth, Western Australia this 30th day of September 2003.

Signed in accordance with a resolution of the directors:

Chen Hao
Managing Director

CERVANTES SEAFOOD LIMITED



STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2003

	Note	2003 \$	2002 \$
Revenue from sale of goods		9,267,416	-
Interest income		33,361	-
Total revenue	2	9,300,777	-
Cost of goods sold		(10,698,805)	-
Operational and marketing expenses		(1,577,654)	-
Administrative expenses		(692,626)	(2,023)
Borrowing costs		(49,188)	-
Goodwill written off		(542,998)	-
Loss from ordinary activities before related income tax benefit	3	(4,260,494)	(2,023)
Income tax benefit relating to ordinary activities	4	-	-
Loss from ordinary activities after related income tax benefit	15	(4,260,494)	(2,023)
Basic loss per share			
Ordinary shares	22	(9.04 cents)	(\$2,023)

The Company's potential ordinary shares are not considered dilutive and accordingly basic loss per share is the same as diluted loss per share.

This statement of financial performance is to be read in conjunction with the accompanying notes.

CERVANTES SEAFOOD LIMITED



STATEMENT OF FINANCIAL POSITION as at 30 June 2003

	Note	2003 \$	2002 \$
CURRENT ASSETS			
Cash assets	5	162,819	123,923
Receivables	6	270,952	5,191
Inventories	7	732,023	-
Other	10	291,630	88,325
Total Current Assets		1,457,424	217,439
NON CURRENT ASSETS			
Property, plant & equipment	8	1,457,577	-
Intangible assets	9	-	-
Total Non Current Assets		1,457,577	-
TOTAL ASSETS		2,915,001	217,439
CURRENT LIABILITIES			
Payables	11	756,797	50,462
Interest bearing liabilities	12	180,779	-
Non-interest bearing liabilities	13	-	169,000
Total Current Liabilities		937,576	219,462
NON CURRENT LIABILITIES			
Interest bearing liabilities	12	783,574	-
Total Non Current Liabilities		783,574	-
TOTAL LIABILITIES		1,721,150	219,462
NET ASSETS/(LIABILITIES)		1,193,851	(2,023)
EQUITY			
Contributed equity	14	5,456,368	-
Accumulated losses	15	(4,262,517)	(2,023)
TOTAL EQUITY/(DEFICIENCY)		1,193,851	(2,023)

This statement of financial position is to be read in conjunction with the accompanying notes.

CERVANTES SEAFOOD LIMITED



STATEMENT OF CASH FLOWS for the year ended 30 June 2003

	Note	2003 \$	2002 \$
Cash flows from operating activities			
Cash receipts in the course of operations		9,232,882	-
Cash payments in the course of operations		(13,158,021)	(4,854)
Interest received		4,009	-
Interest paid		(26,317)	-
<i>Net cash used in operating activities</i>	20	<u>(3,947,447)</u>	<u>(4,854)</u>
Cash flows from investing activities			
Payments for plant and equipment		(1,178,801)	-
Payments for goodwill		(626,800)	-
<i>Net cash used in investing activities</i>		<u>(1,805,601)</u>	<u>-</u>
Cash flows from financing activities			
Proceeds from issue of securities		5,751,817	-
Transaction costs from issue of securities		(755,226)	(40,223)
Proceeds from borrowings		1,603,990	169,000
Repayment of borrowings		(808,637)	-
<i>Net cash provided by financing activities</i>		<u>5,791,944</u>	<u>128,777</u>
NET INCREASE IN CASH HELD		38,896	123,923
Cash at the beginning of the financial year		123,923	-
Cash at the end of the financial year	20	<u>162,819</u>	<u>123,923</u>

This statement of cashflows is to be read in conjunction with the accompanying notes.



NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2003

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Going Concern

These financial statements have been prepared on the going concern basis of accounting, which assumes that the Company will be able to meet its commitments, realize its assets and discharge its liabilities in the ordinary course of business.

The ability of the Company to continue as a going concern is dependent upon the availability of adequate funding for future activities. The events subsequent to balance date (refer Note 24) are expected to assist with the ongoing funding requirements of the Company. Accordingly, the directors consider that the preparation of financial statements on the going concern basis is appropriate and that there are reasonable grounds to believe that the Company will continue to source additional funding, if required, to meet its short to medium term funding requirements.

(b) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

(c) Revenue recognition

Sale of goods

Sales revenue comprises revenue earned (net of the amount of goods and services tax (GST), returns, discounts and allowances) from the provision of products to non related entities. Sales revenue is recognised when the control of goods passes to the customer.

Interest income

Interest income is recognised as it accrues.

(d) Income tax

The Company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.



NOTES TO THE FINANCIAL STATEMENTS (CON'T) for the year ended 30 June 2003

(e) Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation. All assets are depreciated over their estimated useful lives on a reducing balance basis.

The expected useful lives are as follows:

Computer equipment	5 years
Motor vehicles	5 years
Plant and equipment	5 years

(f) Leases

Where assets are acquired by means of finance leases, the present value of minimum lease payments is estimated as an asset at the beginning of the lease term, and amortised on a straight-line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense. Payments made in respect of operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term.

(g) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest less, where applicable, any unearned income and provision for doubtful accounts.

(h) Goodwill

Purchased goodwill is capitalized to the extent it is expected beyond any reasonable doubt to be recoverable. Purchased goodwill is to be amortised from the commencement of commercial operations on a straight-line basis over a maximum period of five years. The unamortized balance is reviewed at least annually and where the balance exceeds the value of expected benefits, the difference is to be charged to the statement of financial performance.

(i) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 60 days.

(j) Recoverable Amount of Non Current Assets

The carrying amount of non-current assets are reviewed annually by Directors to ensure they are not in excess of the recoverable amounts from those assets. The recoverable amount is assessed on the basis of the expected net cash flows, which will be received from the assets employed and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

(k) Comparatives

The Company was incorporated on 28 August 2001. Accordingly, the comparatives are for the period from 28 August 2001 to 30 June 2002.

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NOTES TO THE FINANCIAL STATEMENTS (CON'T) for the year ended 30 June 2003

	2003 \$	2002 \$
2. REVENUE FROM ORDINARY ACTIVITIES		
Sale of goods revenue from operating activities	9,267,416	-
Other revenues:		
Interest income	33,361	-
Total revenue from ordinary activities	9,300,777	-
3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX BENEFIT		
(a) The operating loss before income tax has been determined after charging the following items:		
Depreciation of:		
- Plant and equipment	221,224	-
Amortisation of:		
- Goodwill	83,802	-
Total depreciation and amortisation	305,026	-
Goodwill written off	542,998	-
Interest expense	40,688	-
(b) Auditors' remuneration		
Amounts received or due and receivable by the auditors for:		
Auditing the accounts	20,100	1,000
Other services	13,877	-
	33,977	1,000
4. TAXATION		
(a) Income tax benefit		
Prima facie income tax benefit calculated at 30% on the operating loss from ordinary activities	1,278,148	607
Decrease in income tax benefit due to:		
- non deductible expenses	(10,132)	(300)
- amortisation of goodwill	(25,141)	-
- goodwill written off	(162,899)	-
Future income tax benefit not brought to account	(1,079,976)	(307)
Income tax benefit attributable to loss	-	-

The potential future income tax benefit will only be obtained if:

- (i) the Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realized, or the benefit can be utilized by another company in accordance with the Income Tax Assessment Act 1997;
- (ii) the Company continues to comply with the conditions for deductibility imposed by law; and
- (iii) no changes in tax legislation adversely affect the Company in realising the benefit.

CERVANTES SEAFOOD LIMITED



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

	2003 \$	2002 \$
5. CASH ASSETS		
Cash at bank	162,819	123,923
6. RECEIVABLES		
Trade debtors	34,534	-
Other debtors (Note A)	236,418	5,191
	270,952	5,191
<p>Note A: Included in Other Debtors is an amount of \$166,747 owing by an entity associated with Messrs Chen and West, directors of the Company (refer Note 17(c) for further details).</p>		
	2003 \$	2002 \$
7. INVENTORIES		
Seafood inventories	631,743	-
Bait and other consumables	100,280	-
	732,023	-
8. PROPERTY, PLANT & EQUIPMENT		
Plant and equipment, at cost	1,382,207	-
Less: Accumulated depreciation	(184,143)	-
	1,198,064	-
Motor Vehicles, at cost	248,949	-
Less: Accumulated depreciation	(30,632)	-
	218,317	-
Leasehold improvements, at cost	2,338	-
Less: Accumulated amortisation	(196)	-
	2,142	-
Office furniture and equipment, at cost	45,307	-
Less: Accumulated depreciation	(6,253)	-
	39,054	-
Total Property, Plant and Equipment	1,457,577	-



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

8. PROPERTY, PLANT & EQUIPMENT (cont'd)	2003 \$	2002 \$
Reconciliations		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Plant and equipment		
Balance at beginning of year	-	-
Additions	1,382,207	-
Depreciation	(184,143)	-
Balance at end of year	<u>1,198,064</u>	<u>-</u>
Motor Vehicles		
Balance at beginning of year	-	-
Additions	248,949	-
Depreciation	(30,632)	-
Balance at end of year	<u>218,317</u>	<u>-</u>
Leasehold improvements		
Balance at beginning of year	-	-
Additions	2,338	-
Amortisation	(196)	-
Balance at end of year	<u>2,142</u>	<u>-</u>
Leased plant and equipment		
Balance at beginning of year	-	-
Additions	45,307	-
Amortisation	(6,253)	-
Balance at end of year	<u>39,054</u>	<u>-</u>
9. INTANGIBLES		
Goodwill, at cost	626,800	-
Less: Accumulated amortization for the year	(83,802)	-
Less: Amount written off	(542,998)	-
	<u>-</u>	<u>-</u>
10. OTHER		
Current		
Prepayments	291,630	-
Deferred expenditure	-	88,325
	<u>291,630</u>	<u>88,325</u>

The deferred expenditure comprises cost incurred during the period ended 30 June 2002 in the preparatory work undertaken by the Company to raise capital and apply for admission to the Official List of the Australian Stock Exchange. The costs were debited to Contributed Equity when the Company was admitted to ASX's Official List.

CERVANTES SEAFOOD LIMITED



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

	2003 \$	2002 \$
11. PAYABLES		
Trade creditors	340,438	-
Other creditors and accruals	416,359	50,462
	<u>756,797</u>	<u>50,462</u>
12. INTEREST BEARING LIABILITIES		
Current		
Lease liabilities (Note A)	6,459	-
Interest bearing loans (Note B)	174,320	-
	<u>180,779</u>	<u>-</u>
Non-current		
Lease liabilities (Note A)	13,016	-
Interest bearing loans (Note B)	770,558	-
	<u>783,574</u>	<u>-</u>

Note A: The lease liabilities are secured over the leased assets.

Note B: The interest-bearing loans are secured over the assets and undertakings of the Company by way of a fixed and floating charge.

13. NON INTEREST BEARING LIABILITIES

Other loans – unsecured	<u>-</u>	<u>169,000</u>
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14. CONTRIBUTED EQUITY

Issued and paid-up capital		
63,583,334 [2002: 1] fully paid ordinary shares	<u>5,456,368</u>	<u>-</u>

The following movements in contributed equity occurred during the year:

	Number of Ordinary Fully Paid Shares	Issued Capital \$
Balance 1 July 2002	1	-
• Issue of promoter shares for cash at 0.01 cents each on 15 August 2002	18,166,666	1,817
• Issue of shares for cash at 15 cents each on 20 September 2002	7,950,000	1,192,500
• Issue of shares for cash at 15 cents each on 30 October 2002	18,716,667	2,807,500
• Issue of shares to acquire assets at 5 cents each on 31 October 2002	10,000,000	500,000
• Issue of shares for cash at 20 cents each on 31 October 2002	8,750,000	1,750,000
• Transaction costs arising from issues of shares	-	(795,449)
Balance 30 June 2003	<u>63,583,334</u>	<u>5,456,368</u>

CERVANTES SEAFOOD LIMITED



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

14. CONTRIBUTED EQUITY (cont'd)

Options

During the year, the Company granted options over 40,486,111 unissued ordinary shares. The options are exercisable at a price of 20 cents per share at any time up to and including their expiry date of 31 August 2005. None of the options were exercised during the year and all remain outstanding at 30 June 2003.

	2003 \$	2002 \$
15. ACCUMULATED LOSSES		
Accumulated losses at the beginning of the year	(2,023)	-
Loss for the year	<u>(4,260,494)</u>	<u>(2,023)</u>
Accumulated losses at the end of the year	<u>(4,262,517)</u>	<u>(2,023)</u>

16. REMUNERATION OF DIRECTORS AND EXECUTIVES

Directors' Remuneration

The number of directors of the Company whose income from the Company or any related party falls within the following bands:

	2003 Number	2002 Number
\$0 - \$9,999	4	3
\$10,000 - \$19,999	1	-
	\$	\$
Total income paid or payable, or otherwise made available to all directors of the Company from the Company or any related party	<u>15,000</u>	<u>-</u>

Executives' remuneration

Total income received, or due and receivable, from the Company or any related party by executive officers of the Company whose income is \$100,000 or more.

	<u>-</u>	<u>-</u>
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17. RELATED PARTY TRANSACTIONS

Directors

The names of each person holding the position of Director at Cervantes Seafood Ltd during the year are:

Mr Barry MacKinnon
Mr Chen Hao
Mr Lawrence West
Mr Blair Sergeant (resigned 19 August 2002)
Mr Anthony Ho (resigned 20 September 2002)

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the previous financial year and there were no material contracts involving directors' interests subsisting at year end.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

17. RELATED PARTY TRANSACTIONS (cont'd)

Directors' holdings of shares and share options

The interests of directors of the Company and their director related entities in shares and share options of the Company are set out below:

Class of Share or Option	2003 Number Held	2002 Number Held
Ordinary shares	8,697,577	1
Options over ordinary shares	4,941,833	-

Directors' transactions in shares and share options

During the year, Mr West received 2,847,341 shares as a promoter of the Company at an issue price of 0.01 cents per share, together with 2,016,726 free attaching options. Mr West also received 1,120,047 shares at 5 cents each and 560,023 free attaching options as a vendor to the Company. These securities have been classified as restricted securities by ASX and have been escrowed for 2 years from the date of the Company's admission to ASX.

During the year, Mr Chen (or his director-related entity) received 4,480,189 shares at 5 cents each and 2,240,084 free attaching options as a vendor to the Company. These securities have been classified as restricted securities by ASX and have been escrowed for 2 years from the date of the Company's admission to ASX.

During the year, Mr MacKinnon (or his director-related entity) received 250,000 shares at 15 cents each and 125,000 free attaching options as a seed capital investor.

Directors' transactions with the Company

- a) By an agreement dated 20 September 2002, the Company purchased from Tarana Corporation Pty Ltd ("Tarana") a rock lobster distribution business known as Cervantes Lobster. Tarana is a company associated with Mr Chen Hao and Mr Lawrence West. The purchase consideration for the business comprised:
 - A cash consideration of \$1,600,000; and
 - 10,000,000 fully paid ordinary shares issued at 5 cents per share and 5,000,000 options exercisable at 20 cents each on or before 31 August 2005.
- b) By an agreement dated 20 September 2002, the Company engaged Tarana as the exclusive operator and manager of the Company's processing facility. Under the terms of this agreement, all costs incurred by Tarana related to the processing activity were recovered from the Company and in addition, fees of \$126,403 was paid during the year in respect of operations and management services. In addition, \$77,950 was paid as prepaid fees at 30 June 2003 under the agreement with an 18% discount to the gross fees amount.
- c) As part of the agreement referred to in (b) above, Tarana recovers from the Company certain salaries and wages incurred in the processing of rock lobsters. As at 30 June 2003, an overpayment of these salaries and wages of \$166,747 was made and is recoverable from Tarana (refer Note 6).
- d) By an agreement dated 20 September 2002, Cervantes purchased rock lobsters from Tarana during the year at the price Tarana paid for the rock lobsters to arm's length parties.
- e) The Company paid Tarana an amount of \$180,000 for the year ended 30 June 2003 in respect of lease rentals of the lobster processing plant and certain other premises required for operations. These lease rental payments were made pursuant to a lease agreement entered into with Tarana. In addition, \$202,950 was paid as prepaid lease rental at 30 June 2003 under the lease agreement with an 18% discount to the gross lease rental amount.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

17. RELATED PARTY TRANSACTIONS (cont'd)

- f) The Company entered into an arrangement with Mr Chen Hao and Mr Lawrence West in respect of two fishing boats, which they are part owners of, to catch lobster on behalf of the Company. Under this arrangement, the Company recovers from Messrs Chen and West the costs of certain fishing consumables and supplies attributable to those boats from the lobster catch of those boats.

As at 30 June 2003, \$43,346 of fishing consumables and supplies are outstanding on these boats and are therefore owing to the Company by Messrs Chen and West.

- g) The Company entered into an arrangement with Mr Lawrence West in respect of two fishing boats, which he is the owner of, to lease those boats for a proportion of the value of lobster catch attributed to those boats. The lease amounts paid to Mr West were \$128,572.
- h) The Company has entered into a service agreement with an entity associated with Mr Chen Hao to provide the services of Mr Chen as the Company's Managing Director for a period of two years from November 2002. Under this agreement a fee of \$120,000 per annum is payable. However, payment of such fees is conditional on the Company attaining Earnings before Interest and Tax of at least \$1,500,000 for the year ended 30 June 2003. As this benchmark was not attained, no payment was made under the agreement.
- i) The Company has entered into a service agreement with Mr Lawrence West to provide services as an Executive Director of the Company for a period of two years from November 2002. Under this agreement a salary of \$100,000 per annum is payable. However, payment of the salary is conditional on the Company attaining Earnings before Interest and Tax of at least \$1,500,000 for the year ended 30 June 2003. As this benchmark was not attained, no payment was made under the agreement.

The terms and conditions of these transactions with directors or director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non director-related entities on an arm's length basis.

	2003 \$	2002 \$
18. COMMITMENTS		
(a) Operating lease commitments		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	292,620	-
Later than one year but not later than five years	930,055	-
	1,222,675	-
(b) Finance lease payment commitments		
Finance lease commitments are payable as follows:		
Within one year	8,157	-
Later than one year but not later than five years	14,275	-
	22,432	-
Less future finance charges	(2,957)	-
	19,475	-
Lease liabilities provided for in the financial statements:		
Current (refer Note 12)	6,459	-
Non-current (refer Note 12)	13,016	-
Total lease liability	19,475	-

CERVANTES SEAFOOD LIMITED



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

	2003 \$	2002 \$
18. COMMITMENTS (cont'd)		
(c) Management and employment contracts		
The commitment in relation to the unexpired term of management and employment contracts are as follows:		
Due within one year	380,000	-
Due later than one year but not later than five years	471,616	-
Due after five years	234,246	-
	1,085,862	-

\$271,233 of the above commitment will not be payable unless the Company has an annual Earnings before Interest and Tax of over \$1,500,000 (see Note 17(h) and (i)).

19. SEGMENT REPORTING

Segment revenues and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Company operates as an exporter of lobster and other seafood.

Geographical Segments

	Australia \$A'000		Asia \$A'000		United States \$A'000		Consolidated \$A'000	
	2003	2002	2003	2002	2003	2002	2003	2002
Primary reporting Geographical segments								
Revenue								
Segment revenue	958,503	-	7,591,597	-	717,316	-	9,267,416	-
Unallocated interest revenue							33,361	-
							9,300,777	-
Result								
Segment result	(1,356,490)	(2,023)	(2,683,780)	-	(253,585)	-	(4,293,855)	(2,023)
Unallocated interest revenue							33,361	-
							(4,260,494)	(2,023)
Depreciation and amortisation	(305,026)	-	-	-	-	-	(305,026)	-
Assets								
Segment assets	2,161,330	93,516	285,370	-	305,482	-	2,752,182	93,516
Unallocated cash							162,819	123,923
Total assets							2,915,001	217,439
Liabilities								
Segment liabilities	(1,437,149)	(219,462)	(259,483)	-	(24,518)	-	(1,721,150)	(219,462)

Secondary reporting Business segments

The principal activity of the Company is the distribution and marketing of lobster and other seafood products.

CERVANTES SEAFOOD LIMITED



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

20.	NOTES TO THE STATEMENT OF CASH FLOWS	2003 \$	2002 \$
(a)	Reconciliation of cash		
	For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
	Cash assets (refer Note 5)	<u>162,819</u>	<u>123,923</u>
(b)	Reconciliation of net cash flows from operating activities to loss after income tax		
	Loss after income tax	(4,260,494)	(2,023)
	Add non-cash items:		
	Amortisation	83,802	-
	Depreciation	221,224	-
	Amounts set aside to provisions	-	1,000
	Goodwill written off	<u>542,998</u>	<u>-</u>
	Net cash provided by operating activities before changes in assets and liabilities	(3,412,470)	(1,023)
	Changes in assets and liabilities during the financial year:		
	(Increase) in receivables	(265,761)	(5,191)
	(Increase) in inventories	(732,023)	-
	(Increase) in prepayments	(291,630)	-
	Increase in payables	<u>754,437</u>	<u>1,360</u>
	Net cash used in operating activities	<u>(3,947,447)</u>	<u>(4,854)</u>

21. NON-CASH FINANCING AND INVESTING ACTIVITIES

During the financial year the Company acquired plant and equipment and goodwill for the consideration of 10,000,000 shares at 5 cents each (\$500,000), along with 5,000,000 free attached share options, plus a cash payment of \$1.6 million. The statement of cash flows does not reflect the non-cash component (i.e. the issue of shares and options) of this transaction.

22. EARNINGS PER SHARE

	2003 No.	2002 No.
Weighted average number of ordinary shares used as the denominator in the calculation of basic loss per share	<u>47,107,534</u>	<u>1</u>

The Company's potential ordinary shares are not considered dilutive and accordingly basic loss per share is the same as diluted loss per share.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

23. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk exposure

Cash

Cash includes cash at bank of \$162,819 (2002: \$123,923) in a non-interest bearing account.

Interest bearing liabilities

Interest bearing liabilities are comprised of:

- i) a finance lease of \$19,475 as disclosed in Note 12 at an interest rate of 10.25% per annum; and
- ii) a secured bank loan of \$944,878 as disclosed in Note 12 at an interest rate of 7.9% per annum.

Other than the above, all of the Company's financial liabilities are non-interest bearing.

(b) Net fair values of financial assets and liabilities

Recognised financial instruments

The carrying amounts of financial assets and liabilities as at the reporting date are as follows:

	Net fair value 2003 \$	Net fair value 2002 \$
Financial assets		
Cash assets	162,819	123,923
Receivables		
Trade debtors	34,534	-
Other receivables	236,418	5,191
Other current assets	291,630	88,325
Financial liabilities		
Payables	(756,797)	(50,462)
Lease liabilities and interest bearing liabilities	(964,353)	-
Non interest bearing liabilities	-	(169,000)
Net financial liabilities	<u>(995,749)</u>	<u>(2,023)</u>
Add: non – financial assets and liabilities		
Inventories	732,023	-
Property, plant & equipment	1,457,577	-
Net assets / (liabilities)	<u>1,193,851</u>	<u>(2,023)</u>

(c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted.

The credit risk on financial assets and liabilities of the Company which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The Company is not materially exposed to any individual overseas country or individual customer.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2003

(d) Net fair values

The financial assets and liabilities included in current assets and liabilities in the statement of financial position are carried at amounts that approximate net fair values.

24. SUBSEQUENT EVENTS

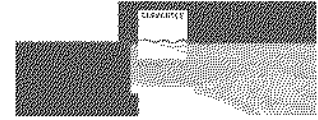
Subsequent to balance date:

- a) the Company entered into an agreement with INF Pty Ltd ("INF") under which the Company will merge its operations and assets with those of INF. In consideration of the merger of the INF assets, subject to shareholder approval, Cervantes Seafood will issue up to 57,527,778 fully paid ordinary shares at an issue price of \$0.107 per share to the shareholder of INF. The agreement is also subject to due diligence and other regulatory approval processes; and
- b) the Company sent a notice of meeting to shareholders to approve the INF Merger (see above). This notice of meeting included a resolution for shareholders to authorize directors to make a placement of up to 15 million shares at an issue price not less than 90% of the prevailing share price.

25. CONTINGENT ASSETS

- a) The Company has applied for an export market development grant under an Australian government scheme to promote exports. The grant amount is estimated to be \$72,500 and is conditional on the Company complying with the rules of the grant scheme and the availability of government funding for the grant scheme.
- b) The Company has made an insurance claim for damages and losses incurred during a fire in December 2002, which affected its operating facilities. The claim amount is for \$136,266 and is subject to assessment by the insurance underwriter.

CERVANTES SEAFOOD LIMITED



DIRECTORS' DECLARATION

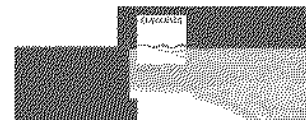
In the opinion of the directors of Cervantes Seafood Limited:

- (a) the financial statements and notes, set out on pages 5 to 20, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2003 and its performance, as represented by the results of its operations and its cashflows, for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth, Western Australia this 30th day of September 2003.

Signed in accordance with a resolution of the directors:

Chen Hao
Managing Director



INDEPENDENT AUDIT REPORT



STANTON PARTNERS

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WEST PERTH 6005
WESTERN AUSTRALIA

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e-mail: australia@stanton.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF CERVANTES SEAFOOD LIMITED

SCOPE

We have audited the financial report of Cervantes Seafood Limited (the Company) for the financial year ended 30 June 2003 as set out on pages 5 to 21. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion the financial report of Cervantes Seafood Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2003 and of its performance for the financial year ended on that date; and



INDEPENDENT AUDIT REPORT (CONT'D)

- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

INHERENT UNCERTAINTY REGARDING ASSETS AND CONTINUATION AS A GOING CONCERN

Without qualification to the audit opinion expressed above, attention is drawn to the following matters.

The Company incurred a loss from ordinary activities of \$4,260,494 for the year ended 30 June 2003. Note 1(a) states that the financial statements have been drawn up on the going concern basis, which assumes that the Company can continue operating and pay its debts as and when they become due and payable as the Company expects to source additional funding.

The ability of the Company to continue as a going concern is dependent upon the Company returning to profitable operations and on the availability of adequate funding for existing commitments and ongoing business activities. In the event that the Company cannot raise further funding, the Company may not be able to meet its liabilities as they fall due and the realisable value of the Company's current and non-current assets may be significantly less than book values.

STANTON PARTNERS

Partner

Perth, Western Australia
30 September 2003

CERVANTES SEAFOOD LIMITED



SHAREHOLDER INFORMATION

Details of shares and options as at 25 September 2003.

Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options do not carry any voting rights.

Restricted Securities

Fully paid ordinary shares

Number of Shares	Escrow Period
2,527,917	Restricted securities until 30 October 2003
30,730,416	Restricted securities until 6 November 2004

Options exercisable on or before 31 August 2005 at 20 cents

Number of Options	Escrow Period
1,263,958	Restricted securities until 30 October 2003
24,059,653	Restricted securities until 6 November 2004

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

San Tiong Ng	4,376,557	ordinary shares
Lawrence Alexander West	3,967,388	ordinary shares
Kheng Sing Lim	3,888,562	ordinary shares
Sac Nominees Pty Ltd	3,817,500	ordinary shares
Mdm Tee Lian	3,736,560	ordinary shares
Chen Hoong	3,736,349	ordinary shares

On-Market Buy Back

There is no current on-market buy-back.

ASX Admission Statement

During the year, the Company has applied its cash in a way consistent with its business objectives.

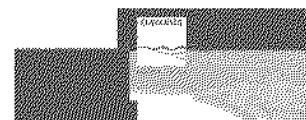
Distribution of each class of Security as at 25 September 2003

Shares Range	Holders	Units	%	Options Range	Holders	Units	%
1 - 1,000	3	784	0.01	1 - 1,000	-	-	-
1,001 - 5,000	42	169,809	0.26	1,001 - 5,000	214	1,062,500	2.63
5,001 - 10,000	233	2,287,916	3.60	5,001 - 10,000	130	1,076,700	2.66
10,001 - 100,000	303	10,560,564	16.61	10,001 - 100,000	141	5,143,297	12.70
100,001 - Over	59	50,564,261	79.52	100,001 - Over	46	33,203,614	82.01
Total	640	63,583,334	100.00	Total	531	40,486,111	100.00

Holdings less than a marketable parcel of ordinary shares (being 6,250 as at 25 September 2003).

Holders	Units
49	194,323

CERVANTES SEAFOOD LIMITED



SHAREHOLDER INFORMATION (CONT'D)

The 20 largest registered holders of each class of security as at 25 September 2003 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Mr San Tiong Ng	4,376,557	6.88
2.	Mr Lawrence Alexander West	3,967,388	6.24
3.	Kheng Sing Lim	3,888,562	6.12
4.	Mdm Tee Lian	3,736,350	5.88
5.	Chen Hoong	3,736,349	5.88
6.	Nai Holdings Pty Ltd	2,800,117	4.40
7.	Dr Chin Vie Yap	2,740,000	4.31
8.	Sac Nominees Pty Ltd	2,729,500	4.29
9.	Eng Hong Tan	1,750,000	2.75
10.	Hoong Chen	1,483,000	2.33
11.	Aurisch Investments Pty Ltd	1,122,695	1.77
12.	Chaw Peng Weng	1,100,000	1.73
13.	Tashma Pty Ltd	1,020,000	1.60
14.	Mr Dheljit Singh Puran	1,000,000	1.57
15.	Mr Andrew Gronow & Mrs Bronwyn Gronow	996,000	1.57
16.	Hung Wai Lee	750,000	1.18
17.	Mr Neil Warren & Mrs Anna Siok Liew Warren	707,003	1.11
18.	Canterbury Broadway Pty Ltd	700,000	1.10
19.	Uniwealth Pty Ltd	700,000	1.10
20.	Phoenix Properties International Pty Ltd	692,000	1.09
		39,995,521	62.90

31 August 2005 options

	Name	No. of Options	%
1.	Mortimer & Chua Corporate Pty Ltd	4,000,000	9.88
2.	Mr San Tiong Ng	3,670,917	9.07
3.	Chen Hoong	3,454,285	8.53
4.	Mdm Tee Lian	3,054,286	7.54
5.	Mr Lawrence Alexander West	2,576,750	6.36
6.	Kheng Sing Lim	1,944,281	4.80
7.	Nai Holdings Pty Ltd	1,400,058	3.46
8.	Geijera Pty Ltd	1,000,000	2.47
9.	Dr Chin Vie Yap	976,250	2.41
10.	Eng Hong Tan	875,000	2.16
11.	Hoong Chen	741,500	1.83
12.	Mr Neil Warren & Mrs Anna Siok Liew Warren	650,031	1.61
13.	Tashma Pty Ltd	510,000	1.26
14.	Aurisch Investments Pty Ltd	500,000	1.23
15.	Mr Dheljit Singh Puran	500,000	1.23
16.	Sac Nominees Pty Ltd	498,500	1.23
17.	Mr Paul Jonathan Wright	405,000	1.00
18.	Mr Paul O'Malley	400,000	0.99
19.	Hung Wai Lee	375,000	0.93
20.	Canterbury Broadway Pty Ltd	350,000	0.86
		27,881,858	68.85