



SANFORD LIMITED
SUSTAINABLE SEAFOOD



Interim Report
2006/2007

From sea to food – over 100 years of sustained growth

Interim Report to Shareholders

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Cover image John Bennett (Skipper of San Aspiring) inspects the tentacles and beak of the colossal squid recovered this season during toothfish fishing in the Ross Sea. It is believed to be the largest specimen ever recorded and was donated to Te Papa for scientific evaluation and public display.



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Directors' Report

The Directors of Sanford Limited report an unaudited tax paid profit of \$11.7m for the six month period ended 31 March 2007 compared with \$11.0m for the same period last year.

Sales revenue decreased by 2% in the period from \$188m last year to \$184m this year.

Directors have maintained the interim dividend at 9 cents per share, being paid to Sanford shareholders today. Full imputation credits are attached to the dividend.

With the NZ dollar progressively strengthening from US 66 cents at October 2006 through to US 72 cents at the end of the period foreign exchange losses for the six months totalled \$7.3m compared to a gain of \$7.2m in the same period last year when the NZ dollar declined from US 69 cents to US 61 cents. Most of the foreign exchange losses are non cash and may be reversed if the NZ dollar declines in the second six months of the financial year.

Despite the high currency EBITDA increased from \$24.9m last year to \$26.5m this year with increased aquaculture production contributing higher returns and improved results from the Pacific tuna vessels with tuna market prices consistently higher than in past seasons.

Depreciation and amortisation reduced from \$8.5m last year to \$7.8m this year while interest costs reduced from \$6.6m to \$5.9m.

A significant contribution to the result for the period was a one-off capital gain of \$7.5m on the sales of the 100% investment in the Sanford Argentine vessel-owning subsidiary and a 70% investment in the vessel operating company. The final gain was ahead of previous indications enhanced by operating results up to the date of disposal and the realisation of additional working capital.

With the lower operating earnings taxation declined from \$5.9m last year to \$1.8m this year.

Directors' Report

Overview

A number of factors affected profitability during the first six months of the financial year, including:

- Overall catch and production levels continued to improve and were 6% ahead of last year although after removing the Argentine comparative catch the increase is 10%. Catches increased in the inshore fishery mainly through purse seine landings of blue mackerel in Tauranga; as well deepwater catches improved and higher production levels were achieved in aquaculture.
- Continuing improvement in the catching performance of the Pacific tuna vessels coupled with higher average prices resulted in improved returns from this operation. Sales volumes of hoki, mussels and salmon were ahead of last year. Squid and orange roughy volumes were down but most other species volumes were similar. Net returns from species such as hoki, ling, mussels, smooth dory, salmon, skipjack and snapper improved over the previous year while orange roughy and squid returns declined.
- The improvement in aquaculture production resulted from increased mussel production at the North Island Mussel Processors (NIMPL) joint venture in Tauranga and from mussel plants in Havelock and Bluff. Salmon production is steadily being increased to meet growing demands and returns from fresh markets in New Zealand, Australia and the United States as well as the Japanese frozen market.



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- Following a review of the investment in our Argentine operations and in considering the prospects for this and other sectors of our business we agreed with our Argentine partner that the business would better progress under his sole ownership and we consequently reached satisfactory arrangements for the sale of our shares. We continue to have the utmost respect for our Argentine partner and will continue to support the vessel's operations and the marketing of its catches for as long as we can add value.
- Despite an active cash management programme foreign exchange losses for the six months totalled \$7.3m compared with a gain of \$7.2m in the comparable period in the previous financial year. Most of the losses relate to the translation of US currency balances held at 31 March 2007; these losses could reverse if the New Zealand dollar weakens in the second half of the financial year.

Trading and Marketing Overview

North America

While we continue to ship significant volumes of hoki, mussels, orange roughy and toothfish into North America, prices for orange roughy have weakened considerably over the past six months. This has resulted in lower volumes of orange roughy filets sold into the United States and a greater emphasis on producing more retail focussed products at the Weihai Dong Won Food Company Limited facility in Weihai, China.

Directors' Report

Europe

Prices and demand for most species other than squid have been strong in Europe. Eastern Europe continues to increase in importance as a market with demand for products, particularly those suitable for smoking, increasing steadily. Demand and prices for hoki have remained steady while smooth dory, black dory, ling and hake demand and prices have improved significantly. Squid prices have been very weak following increased production in the Falklands and Argentinean zones in the South Atlantic.

Asia

Japan remains an important market for many species, including snapper, salmon and scampi with regular shipments to a wide range of customers.

Korea is a constantly improving market and demand from Hong Kong particularly for ling has been strong with significant price increases over the period.

China continues to strengthen economically with demand for an increasing range of species not only for local consumption but also for its many thousands of re-processing factories.

Australia

The Australian market has improved over the past six months and along with the New Zealand market is a focus area for growth. The Australian Government recently introduced a significant restructuring package to remove surplus effort in a range of fisheries. This has led to improved pricing for fresh product caught by our own and independent vessels and sold or distributed through our Australian business, as well as for fresh and frozen product exported from New Zealand.



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Other Markets

Prices for trevally into the Middle East have finally reached a more economic level and this and other product sales are being made when payment is assured.

Jack mackerel and barracouta markets continue to improve in the Pacific and Africa where regular sales are being made.

Inshore Operations

Auckland

Inshore catches in the Auckland area continue to improve with an increasing mix of our vessels' catch and catches sourced from independent fishermen. We have seen a substantial lift in volumes of snapper packed for airfreight customers throughout the Pacific which has resulted in significantly lower production for frozen markets in Japan and Korea.

Catches of snapper on the East Coast have been steady and in line with predictions while catches on the West Coast have been strong with continued improvements in the ratio of catch compared to the effort expended.

Auckland Fish Market

Levels of activity at the retail and wholesale outlets as well as the Auckland Fish Market Seafood School continue to increase. The Auckland Fish Market is now firmly established as a seafood venue in Auckland, both for buyers seeking fresh, quality seafood as well as for an increasing stream of tourist visitors as the facility becomes well known and marketed as a "must see" to tour wholesalers.

Directors' Report

Tauranga

Blue mackerel catches in Tauranga were well ahead of last year in the October to December period and skipjack tuna catches were steady with prices ahead of last year. A substantial improvement in blue mackerel catches came at a time when international catches were also strong; as a consequence sales have been slower than previous years and inventory levels are higher than normal.

Timaru

Catches from our own vessels were well down on last year with disappointing catches of barracouta and red cod slightly offset by improved landings of squid. Landings from private fishermen, mainly into Bluff, were, however, comparable to previous years.

The San Won coldstore operation continues to produce acceptable returns although volumes handled in the period were lower than the same period last year.

Deepwater Operations

Freezer Trawlers

The 64-metre freezer vessels performed well with improved catches of hoki, orange roughy and dory in the early part of the financial year and improved squid catches in the latter period. The improvement in catch rates has gone some way towards offsetting the increased cost of fuel which, for all activities, remains a significant cost.

Freezer Longliners

In the early part of the year the San Aotea II and the San Aspiring operated in the ling fishery before moving to the Ross Sea to target toothfish. Again both vessels performed extremely well, ahead of expectations and better than comparable vessels in the fishery. The market demand for toothfish has been steady although this year prices are stronger for smaller fish, mainly caught in the South Atlantic fishery which has MSC certification. Steps are being taken to determine whether MSC certification of the Ross Sea fishery is appropriate.



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At the close of the period the San Aspiring was again successful in obtaining access to the South Georgia and South Sandwich Islands fisheries in the South Atlantic and will operate under quota until the end of the financial year.

A documentary recording the recent San Aspiring trip to the Ross Sea and focussing on the skipper John Bennett and his wife Sue and their life aboard the vessel will air on television in the next few months. The video has been industry-funded and emphasises the care taken to avoid environmental impacts from the vessel's activities.

Scampi Freezer Vessels

These six vessels had a steady catch over the period although weather and occasional vessel breakdowns slightly reduced catches from the previous year; however they are on target to catch their full allocations for the year with product moving steadily to markets in America, Europe and Japan.

Charter Vessels

Three Dong Won charter vessels have operated to plan and have enjoyed a good squid catching season with catches ahead of last year. Financial returns continue to be steady and in line with expectations although we have worked hard to overcome and comply with the regulatory requirements placed on charter vessels.

This year we are operating an additional Korean charter vessel from Juahm Industries Limited. The managers of this charter have quickly adapted and integrated their operation to meet our practices and protocols. The vessel is proving a useful addition to overall activities as well as giving Sanford improved access to products from quota previously leased out to other operators.

Quota Trading

Income from quota trading has been steady, although in the second six months of the year we expect income to decrease as more quota is utilised in our own operations.

Directors' Report

Aquaculture Operations

Pacific Oysters – Kaeo

Production of half shell oysters from Kaeo increased in the period leading up to the summer spawn. An upgrade to freezing systems has considerably enhanced product quality and, along with the water quality monitoring programmes, is ensuring access to new markets in Europe. Despite increased production levels, sales of oysters into Australia have been delayed through a misalignment of testing regimes between New Zealand and Australia. The issues are being slowly worked through with, for our part, additional testing prior to shipment.

Greenshell Mussels – Coromandel, Havelock and Bluff

The North Island Mussel Processors joint venture in Tauranga had a far more successful processing period in the first six months of the financial year with production levels running significantly ahead of last year and well ahead of predictions. Difficulties experienced last year have been addressed and this has led to a significant improvement in the activity's financial contribution.

Production levels have continued to increase at Havelock with steady throughput from both our own farms and independent farmers; the increased volumes have led to improved efficiencies and lower unit production costs.

Production levels at the Bluff mussel processing plant also continue to improve. As with Havelock supplies from our own farms and purchases from other farmers in the area have increased production levels.



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King Salmon – Bluff

Production and harvest volumes of salmon have improved slightly over the same period last year with improved market prices resulting in increased revenue and lower inventories.

We are also working to progressively increase the production levels of our salmon farms in Big Glory Bay, Stewart Island.

International Fishing Operations

Australia

Restructuring of our Australian businesses has mostly been completed. One vessel has been sold and another relocated to the Auckland fleet. As well we have been able to finalise access to a significant alfoncino quota in the East Coast deepwater trawl zone where the vessel Petersen is now engaged.

An improvement in market prices for Sanford's Australian wholesale and retail distribution activity has contributed to more acceptable returns.

Pacific Tuna Vessels

As reported earlier the three Pacific tuna vessels had increases in catches compared to the same period last year with market prices higher than for a number of years.

Directors' Report

Overseas Investments

Fishery Products International Limited (FPI) – Canada (15% owned)

At the end of May the Newfoundland and Labrador Government approved in principle two transactions which will see the majority of assets of FPI sold. The remaining major asset is a United Kingdom company which is also to be sold. FPI can now move to finalise the transactions which will allow Sanford to realise its investment.

Sanford Limited purchased an interest in FPI in late 1999 at an average cost of C\$8.75 per share. In 2005 we wrote down the value of our shares to C\$7. Since early April 2007 FPI shares have traded on the Toronto Stock Exchange at prices between C\$14 and C\$15 per share. If we achieve a realisation of C\$15 per share the cumulative return, adjusted for dividends, is 8% per annum and will produce a one-off gain of approximately NZ\$20m and cash proceeds of NZ\$40m to be used to reduce term debt.

Weihai Dong Won Food Company Limited, China (40% owned)

Over the past six months considerable effort has been put into expanding the range of products produced for Sanford as well as for other international customers. Three significant products are regularly shipped to the United States and Europe and the factory continues to process crumbed and other value added products for the Japanese market. Further products under development are planned to attract new custom as part of the company's emphasis on realising its full market potential.



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Consolidated Statement of Financial Position

Sanford Limited maintains a strong balance sheet with Shareholders Equity in proportion to total assets of 71% and a working capital ratio of 1.81. If bank overdraft and borrowings at call are offset against cash assets this ratio increases to 2.93.

Inventory levels are up by approximately \$6m since the end of September 2006, but are consistent with levels at the same time last year.

Capital Expenditure

Approximately \$4m was spent in the first half year mainly related to mechanisation and technology to increase efficiencies in inshore and aquaculture processing facilities and to improve earnings despite the high NZ dollar.

International Financial Reporting Standards

Sanford continues to progress towards complying with the International Financial Reporting Standards to come into effect in the 2008 financial year. While there are many issues of detail being worked through we remain concerned about the treatment of quota as an intangible asset and the implications of this in reporting annual profitability. To this end we are close to completing a major analysis of quota transactions over the last 20 years. At this stage we do not expect any significant changes in the valuations from those currently carried in the balance sheet.

Directors' Report

Sustainable Development

Progress continues to be made on our sustainable development journey. We are working with others towards increasing the number of fisheries under certification by the Marine Stewardship Council. The budget announcement of Government funding support for such initiatives will assist in moving this process forward at a faster pace. Work has also commenced on how we might move the Company towards carbon neutrality. An aquaculture and an inshore fishing operation are to be modelled on a trial basis.

Outlook for the Second Six Months to 30 September 2007

Markets for most species are generally positive and the overall demand for Sanford quality frozen at sea and fresh products continues to improve. Aquaculture products are highly regarded for the quality production from clean pure New Zealand waters.

Trading profits for the second half of the financial year are expected to exceed those of the first half. Sanford Limited is confident that the quality of its profitability is improving; the quantum, for the time being at least, depends on the levels of the New Zealand / United States dollar exchange rate. The realisation of our interests in Canada will make a significant contribution to the results of the financial year in which it is finalised.



B S Cole
Chairman

20 June 2007



E F Barratt
Managing Director



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Consolidated Statement of Financial Performance

for the six months ended 31 March 2007

	6 months ended 31 March 2007 Unaudited	6 months ended 31 March 2006 Unaudited	12 months ended 30 September 2006 Audited
	\$000	\$000	\$000
Sales revenue	183,977	188,149	390,401
Dividend income	22	14	20
Equity accounted earnings (losses) of associates	52	(268)	(373)
Interest income	948	394	860
Profit (loss) on disposal of fixed and long term assets	333	(84)	322
Profit on disposal of subsidiaries	7,528	–	–
Operating revenue	192,860	188,205	391,230
EBITDA *	26,531	24,926	63,303
Depreciation and amortisation	(7,810)	(8,461)	(16,167)
Net interest (expense)	(5,907)	(6,579)	(12,247)
Net currency exchange gains (losses)	(7,311)	7,249	4,773
Profit (loss) on disposal of fixed and long term assets	333	(84)	322
Profit on disposal of subsidiaries	7,528	–	–
Operating surplus before taxation	13,364	17,051	39,984
Less taxation	1,802	5,876	13,393
Operating surplus after taxation	11,562	11,175	26,591
Minority interests	105	(139)	(517)
Net surplus attributable to shareholders	11,667	11,036	26,074

* Earnings before interest, taxation, depreciation and amortisation, net currency exchange gains (losses) and profit (loss) on disposal of fixed and long term assets and subsidiaries.

Consolidated Statement of Movements in Equity

for the six months ended 31 March 2007

	6 months ended 31 March 2007 Unaudited	6 months ended 31 March 2006 Unaudited	12 months ended 30 September 2006 Audited
	\$000	\$000	\$000
Net surplus	11,667	11,036	26,074
Minority interests	(105)	139	517
Movements in asset revaluation reserve	–	–	1,580
Movements in foreign currency translation reserve	405	2,225	1,517
Total recognised revenues and expenses	11,967	13,400	29,688
Contributions (to) from Minority interests	(661)	88	86
Distributions to shareholders	(12,169)	(12,171)	(20,598)
Movements in equity for the period	(863)	1,317	9,176
Total equity at beginning of period	504,789	495,613	495,613
Total equity at end of period	503,926	496,930	504,789

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 March 2007

	31 March 2007 Unaudited	31 March 2006 Unaudited	30 September 2006 Audited
	\$000	\$000	\$000
Equity			
Paid in capital	95,355	88,828	95,355
Reserves	408,398	407,475	408,456
Minority interests	173	627	978
Total equity	503,926	496,930	504,789
Non current liabilities			
Bank loans (unsecured)	130,000	150,000	130,000
Deferred taxation	665	1,329	694
Total non current liabilities	130,665	151,329	130,694
Current liabilities			
Bank overdraft and borrowings at call (unsecured)	43,755	15,666	27,201
Trade creditors	12,412	9,572	10,042
Other liabilities	19,471	17,885	19,015
Provision for taxation	–	–	172
Total current liabilities	75,638	43,123	56,430
Total equity and liabilities	710,229	691,382	691,913
Non current assets			
Fixed and long term assets	532,520	544,944	539,411
Term receivable	9,804	–	–
Investments	30,176	30,777	31,129
Brand use rights	500	1,500	1,000
Total non current assets	573,000	577,221	571,540
Current assets			
Cash on hand and at bank	43,985	2,544	36,264
Trade debtors	26,805	48,029	30,716
Other debtors and prepayments	10,091	11,275	7,737
Stocks	51,525	51,493	45,656
Taxation	4,823	820	–
Total current assets	137,229	114,161	120,373
Total assets	710,229	691,382	691,913

The accompanying notes form part of these financial statements.



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Consolidated Statement of Cash Flows

for the six months ended 31 March 2007

	6 months ended 31 March 2007 Unaudited	6 months ended 31 March 2006 Unaudited	12 months ended 30 September 2006 Audited
	\$000	\$000	\$000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers	185,482	167,565	390,585
Interest received	948	394	860
Dividends received	172	351	556
	186,602	168,310	392,001
Cash was applied to:			
Payments to suppliers and employees	169,674	156,051	312,205
Income tax paid	6,751	4,273	11,526
Interest paid	6,509	6,605	12,635
	182,934	166,929	336,366
Net cash flow – operating activities	3,668	1,381	55,635
Cash flows from investing activities			
Cash was provided from:			
Disposal of fixed and long term assets	1,672	280	1,030
Sale of investments and subsidiaries	5,046	38	457
	6,718	318	1,487
Cash was applied to:			
Purchase of fixed and long term assets	4,003	2,663	5,619
Purchase of investments and subsidiaries	–	3,489	3,734
Loans to related parties	–	–	533
	4,003	6,152	9,886
Net cash flow – investing activities	2,715	(5,834)	(8,399)
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings	–	7,000	7,000
Cash was applied to:			
Dividends paid	12,169	12,171	20,598
Repayment of loans	–	–	20,000
	12,169	12,171	40,598
Net cash flow – financing activities	(12,169)	(5,171)	(33,598)
Net cash flows for the period from all activities	(5,786)	(9,624)	13,638
Cash at beginning of the period	9,063	(5,487)	(5,487)
Effects of exchange rate changes on cash	(3,047)	1,989	912
Cash at end of the period	230	(13,122)	9,063
Represented by:			
Bank overdraft and borrowings at call	(43,755)	(15,666)	(27,201)
Cash on hand and at bank	43,985	2,544	36,264
	230	(13,122)	9,063

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for the six months ended 31 March 2007

1. The Financial Statements have been prepared in accordance with Financial Reporting Standard No. 24 (Interim Financial Statements) and should be read in conjunction with the previous annual report.

2. Progress on Transition to NZ International Financial Reporting Standards.

The company is continuing its review of the accounting policies affected by the adoption of International Financial Reporting Standards (IFRS). The company has identified the areas likely to be affected but the financial effects of the transition have not yet been quantified. Future developments will also change the nature and extent of the adjustments required.

The major areas of likely difference are fishing quota, immature biological assets, financial instruments, deferred tax and impairment testing of assets which were described in more detail in the notes to the 2006 Financial Statements. As the company approaches its adoption date of 30 September 2008 it will be in a better position to quantify the potential impacts of all IFRS requirements.

3. There have been no significant changes in accounting policies. All policies have been applied on bases consistent with those used in the previous interim and annual financial statements. To ensure consistency with current period, comparative figures have been restated where appropriate.

4. Reconciliation of Net surplus attributable to shareholders to Net cash flow – operating activities.

	6 months ended 31 March 2007 Unaudited	6 months ended 31 March 2006 Unaudited	12 months ended 30 September 2006 Audited
	\$000	\$000	\$000
Net surplus attributable to shareholders	11,667	11,036	26,074
Non cash items			
Depreciation and amortisation	7,810	8,461	16,167
Minority interests share of profit (loss)	(105)	139	517
Equity accounted loss (profit) in associated companies	(52)	268	373
Increase (decrease) in deferred taxation	(29)	624	(1,327)
Unrealised foreign exchange (gains) losses	(28)	2,906	5,542
	7,596	12,398	21,272
Adjustments for other items			
Net (profit) loss on disposal of fixed and long term assets	(333)	84	(322)
Net (profit) on sale of subsidiaries	(7,528)	-	-
(Increase) decrease in debtors and prepayments	1,532	(23,567)	(5,060)
(Increase) decrease in stocks	(5,877)	160	5,953
Increase in creditors and other liabilities	1,530	291	4,524
Increase (decrease) in provision for taxation	(4,919)	979	3,194
	(15,595)	(22,053)	8,289
Net cash flow – operating activities	3,668	1,381	55,635



SANFORD LIMITED
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Directory

Board of Directors

B S Cole, Chairman
E F Barratt, Managing Director
J G Todd, CBE, Deputy Chairman
D G Anderson
M P Bitossi, JP
P J Goodfellow
W B Goodfellow

Company Secretary

G L McNamara

Registered Office

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Stock Exchange

The Company's shares trade on the New Zealand Stock Exchange (NZX).

NZX Trading Code: SAN

The minimum marketable parcel on the Exchange is 100 shares (price \$2 to \$5 per share) or 50 shares (price \$5 to \$10 per share).

Share Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, North Shore City 0622
Private Bag 92 119, Auckland Mail Centre
Auckland 1142, New Zealand

Telephone + 64 9 488 8777
Facsimile + 64 9 488 8787

Enquiries

Shareholders with enquiries about transactions, change of address or dividend payments should contact Computershare Investor Services Limited.

Telephone + 64 9 488 8777
Email enquiry@computershare.co.nz

Other queries should be directed to the Company Secretary at the Registered Office.



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