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# **Walnuts New Zealand Co-operative Limited**

## **ANNUAL REPORT 2016**

First 11 months trading to 31 March 2016

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# Contents

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About us.....	3
Our statement of purpose.....	3
Board of directors.....	4
Report from the Chair and General Manager.....	5
Background of our industry.....	5
Challenges and opportunities.....	6
Consistent supply.....	6
Consistent quality.....	7
Consistent payout.....	7
Imported products.....	7
Operational efficiency.....	7
Operational effectiveness.....	8
Increasing volumes.....	9
Funding growth.....	9
Risk management and contingency plans.....	9
Market development.....	10
Conclusions.....	10
Summary of financial and non-financial performance.....	11
Financial.....	11
Non-financial.....	12
Shareholding by walnut suppliers.....	13
Setting up our co-operative: milestones.....	14
<b>AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2016</b>	
Company directory (page 1)	
Directors' annual report (pages 2–3)	
Statement of comprehensive income (page 4)	
Statement of changes in equity (page 5)	
Balance sheet (page 6)	
Cash flow statement (page 7)	
Notes to the financial statements (pages 8–25)	
Independent auditor's report (page 26)	
<b>AUDITED SHARE REGISTER AS AT 31 MARCH 2016</b>	
Share register	
Independent auditor's report	

## About us

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Walnuts New Zealand Co-operative Limited is a grower-owned co-operative company whose main activities are to purchase, process, market and sell walnuts on behalf of its shareholders.

Walnuts NZ Co-operative Ltd was incorporated under the Companies Act 1993 on 29 April 2015 and commenced business on 1 May 2015. This annual report therefore covers our first 11 months in business (to 31 March 2016).

We operate as a co-operative company within the meaning of the Co-operative Companies Act 1996, and our constitution is in accordance with this Act. In accordance with the Financial Markets Conduct Act 2013, we registered a Product Disclosure Statement to offer shareholding to walnut suppliers.

The impetus to set up the company was provided when the previous owners of the walnut processing and marketing business, *A Cracker of a Nut Limited*, Jenny and Malcolm Lawrence, expressed their wish to retire and sell the business. Walnut growers met in late 2014 to hear from a sub-group of suppliers invited by the Lawrences to consider options for a way forward. At that meeting, a transitional board of directors (seven walnut grower-suppliers) was elected to investigate company structures, set up a grower-owned company, and negotiate the purchase of the business. By the end of April 2015 these tasks had been completed, and a newly-registered co-operative company purchased the assets (plant and equipment, goodwill) of Jenny and Malcolm Lawrence's business, and arranged to lease the factory premises from them. The initial shareholders were the directors.

A Product Disclosure Statement was developed during the 2015 calendar year, and was placed on the offer register on 23 December 2015. Share purchases by suppliers have been proceeding since January 2016. Shareholding is based on volume of supply, with the share standard being one share per kilogram of walnuts supplied (in the supplier's maximum year of supply). By the end of March 2016, a large proportion of walnut supply was covered by shareholding. Further share purchases have been made since that date.

### **Our statement of purpose**

The purpose of our co-operative company is to grow the wealth and security of our NZ walnut producer-shareholders through our common goals of:

- Reliable supply of premium-value product to our consumers
- Providing a path to market for our shareholders
- Efficient and effective processing and cohesive marketing
- Unity of purpose amongst our suppliers
- Behaviour that is socially, financially and environmentally responsible.

## **Board of directors**

Our constitution requires a board of seven directors. Directors have a three-year term. One-third of directors are required to retire in rotation each year but can make themselves available for re-election if they wish. In general, directors must be transacting shareholders of the company, though our constitution allows one Appointed Director who is not a shareholder (this provision could be used if at some time the board wished to bring in specific skills or an independent viewpoint). Current directors are:

### **Colin Prebble (Chair)**

*Colin and his wife Karen have a 16-year-old orchard they developed from scratch. Colin is a chartered accountant with experience on various boards and committees. He is also involved in food manufacturing and distribution and is a partner in some Christchurch-based food service businesses.*

### **Frank Brenmuhl (Deputy Chair)**

*Frank and Margaret have a 32-ha walnut orchard at Aylesbury. Frank is a retired dairy farmer, and farm consultant. He was a National Board Member of Federated Farmers of NZ which included the roles of National Dairy Section Chairman, Chairman of the Dairy Industry Awards Trust and National Vice President of FFNZ.*

### **Andrew Horsbrugh**

*Andrew and his wife Jo own and operate Tunlaw Farm Limited, a 45-ha walnut orchard in West Melton. Andrew is CEO of Craigmore Farming and a member of the Institute of Directors NZ. He is a director on a number of different boards in the dairy, sheep & beef, transport, horticulture and processing sectors, and a shareholder/director of Donaghys Limited. Andrew and Jo are also the NZ agent for AMB Rousset walnut harvesting and processing equipment.*

### **Nelson Hubber**

*Nelson and his wife Wilma own a property at West Melton with about 4.5 ha of walnuts, a small commercial cherry block and other trees including a producing truffière on an adjacent property. Nelson is retired and was a Southland farmer, company director, economic development officer and business owner. He has a lifelong involvement in innovative projects that have included a patented hovercraft system, electronic device, meat and protein processing, digital printing and in-house website and software development.*

### **Basil Meyer**

*Basil is farming in partnership with Trudi 1000 walnut trees on their property near Charing Cross, Darfield. Both are originally from Switzerland and settled in New Zealand in 1987. Through the sharemilking route they purchased their dairy farm on the West Coast in 1993, which they sold in 2013 to concentrate on their walnut orchard. From 2000 to 2010 Basil was a Director of Westland Co-operative Dairy Company. Basil and Trudi are the NZ contact for Feucht Obsttechnik, the German manufacturer of walnut harvesting equipment. Basil currently works part time at Fonterra in Darfield.*

### **Graeme Nicholas**

*Graeme and his wife Barbara own BG Growers Ltd, that owns and operates a 10-ha walnut orchard near Springston. Graeme is a researcher at the Crown Research Institute, ESR. He is on the board of CWS, an international aid and development agency, and is a member of the Royal Society of New Zealand and the Institute of Directors in New Zealand. Graeme has served on several not-for-profit boards, and plays trombone in the Ellesmere Big Band.*

### **Heather North**

*Heather owns a 17-ha orchard near Lincoln with business partner Clive Marsh. Maximum walnut supply was almost 30 tonnes in the 2015 harvest. Heather is a research scientist specialising in satellite remote sensing, working as a self-employed contractor. She is a member of the Institute of Directors, and the co-op has paid for her to attend several IoD courses to help in carrying out her roles on the board.*

## Report from the Chair and General Manager

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### Background of our industry

For many of our shareholders the idea to develop a walnut orchard, or purchase one from an existing grower, was an extraordinary leap of faith into the unknown. To mitigate the risks much research was undertaken and the pros and cons of the different crop options carefully weighed against each other. Local and international information was sought out and hours were spent trawling the internet for relevant, and often, as it turned out, conflicting information. Even the less commercially-focused or smaller growers considered the question of yields that could be expected and the best varieties to invest in.

Industry pioneers were proactive in the development of a trial block at Lincoln University and significant scientific data was captured, analysed and communicated to interested parties. The formation of the Walnut Industry Group was a key achievement which has given rise to extraordinary effort invested in industry research and education.

Supporting and actively encouraging these industry efforts were Jenny and Malcolm Lawrence. As early, commercially-orientated orchardists, Jenny and Malcolm diligently invested enormous personal and financial resources into developing not only a significant orchard, but also establishing a processing, distribution, sales and marketing business. They were active in supporting the growing walnut industry and inspired and encouraged many of us with sound advice and support. Jenny and Malcolm did the hard yards early in the development of the industry. Their operation 'A Cracker of a Nut' became well known in nut tree circles due to their ongoing commitment to the industry.

The challenges of any fledgling business – and we are sure that 'A Cracker of a Nut' was no different – are immense and varied. This particular type of venture typically faces four main challenges:

1. Securing a consistent supply of quality nuts.
2. Researching the demand for particular products.
3. Establishing the manufacturing operation to produce those products.
4. Establishing a distribution system to deliver products to market.

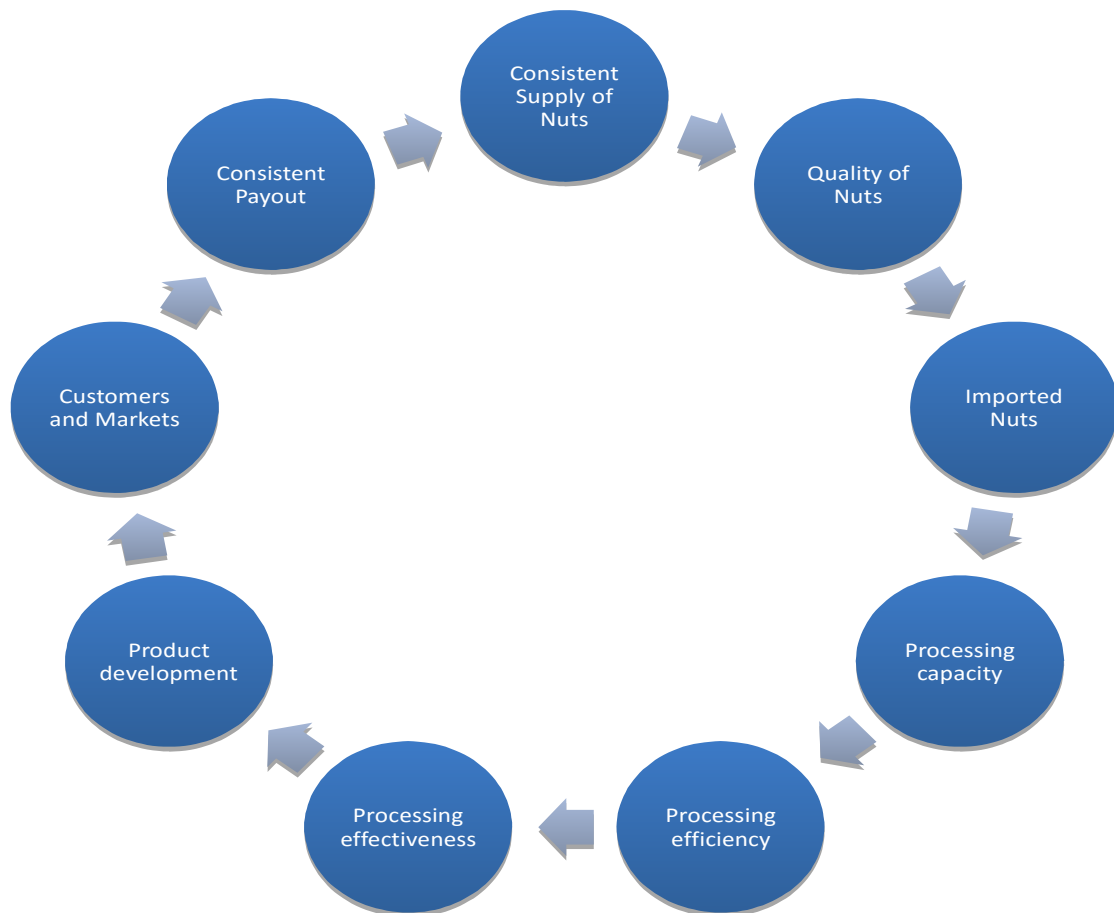
These challenges were, to some extent, manageable; however, there were years where securing a consistent supply of nuts was difficult and, in some situations, impossible. These years saw Jenny and Malcolm effectively subsidising growers to quite significant levels. This subsidisation arose from either having to purchase nuts of an inferior quality or absorbing sale price fluctuations themselves rather than passing them onto suppliers through a lower payout. Indeed in a bad year both situations could arise, resulting in a significant operating loss.

These issues have far from disappeared from the commercial landscape and present a significant challenge for the shareholders and directors of Walnuts New Zealand Co-operative Limited as we move forward.

We would like to take the opportunity to analyse these challenges, as we believe it is essential for all Shareholders to understand and appreciate the commercial off-orchard issues that are inherent in the industry in which they have chosen to participate. Think of these issues as the balls that have to be juggled – kept in the air, so to speak. Drop one ball and it has a domino effect on the operation, which quickly reflects in the financial performance and available payout to growers.

## Challenges and opportunities

We mentioned having to “keep balls in the air”. The balls, as we see them, are as follows:



We have depicted them as been in a chain as each has an impact on the other. However the reality is that many aspects of the business are closely inter-related. There are, of course, many other day-to-day issues that need to be managed. Let’s have a brief look at each of the balls that are particularly relevant to WNZCL.

### Consistent supply

Over the years the supply of nuts to the processing plant has steadily increased. However, supply is at the whim of nature and there is little that we as individual growers can do to eliminate the negative effects of our number one threat: frost. We can irrigate to control a tree’s available water. We can monitor blight levels and spray to control its effects. Pests and diseases are largely controllable.

Unfortunately the high-end baker in Auckland and the Category Manager at a major supermarket have little interest in our supply issues. They want consistent supply of nut products of a quality and price suitable for their purposes.

Our processing plant has an overhead expense, which is of a largely fixed nature. Presently, that overhead can only be met by adding value to the quantity of nuts it receives from growers. If the quantity or quality of those nuts has been compromised during the growing season the co-op is faced with a reduced ability to cover overheads and to maximise a payout to growers that would provide them with a good return on their nuts supplied.

Consistent supply of quality nuts from shareholders is presently the most vulnerable aspect of the business and that which is most likely to affect shareholder payouts. Last season we processed 133 tons of nuts (to 31 March 2016). This season we were originally budgeting to process 200 tons of nuts based on the increasing yield of maturing orchards. Unfortunately there was a frost in the Canterbury region on the 5th of November 2015. Initial indications from growers suggested that the Rex variety was badly frosted. We are expecting to be around 65 tons short of expectations this year as a result of that frost.

### **Consistent quality**

You will recall that in 2014 we had a very wet harvest season after what had been quite a dry summer in Canterbury. The inclement weather made it impossible to avoid stained nuts and drying was difficult. The previous year there was a higher blight incidence due to the damp summer. In this past year the challenge for many was irrigation and we may see an incidence of smaller nuts from growers where insufficient water was kept up to the trees. However, despite these challenges, there has been an increase in the quality of nuts produced. Personally, we put this down to increased communication of quality issues. The Walnut Industry Group (NZWIG) has put a lot of work into this area and we take this opportunity to thank them for their valuable efforts.

However, it has been over to the individual growers to implement the recommendations made. The improvements in quality are testament to our growers taking the time to improve their growing and handling practices. To those growers who are still working on improving quality and irrigation practices, we encourage you to invest your time in this area as it does pay off.

### **Consistent payout**

As a grower I desire a consistently high payout for the nuts I supply to my co-op. After all, I have invested a significant amount of money and time into my orchard and I would like to enjoy the financial benefits of this.

As outlined above, the Co-op needs a consistent supply of quality nuts. Without this supply from growers the Co-op will struggle to achieve consistently good payouts. It is therefore important that we investigate opportunities to ensure we are also able to source nuts from non-shareholder growers as required.

### **Imported products**

In years where there is a problem supplying market demand from locally-grown nuts we must consider how we make up this shortfall. With the frost-induced supply shortfall this year the Board has asked Shane to investigate the feasibility of importing nuts to make up the shortfall (possibly for use in our baking-grade products) and investigations have begun.

### **Operational efficiency**

Labour productivity, capital investment in equipment, nut quality, consistency of supply and the management of these factors are all major drivers of operational efficiency. Good progress was made last financial year in all of these areas and the results of this are reflected in a significantly better-than-projected financial result. The board believes this is a credit to Shane and his team who have, through a combination of hard work and vision, made the necessary modifications to operations.

## Operational effectiveness

An ongoing project is to analyse market demand for the various types of product the factory produces. We want to ensure we are manufacturing a product mix that produces the maximum value from the nuts available.

We are obtaining support from the Canterbury Development Corporation in this area. There will be changes made to the mix of products manufactured over the next year in response to the project's initial findings. This will be an ongoing process of monitoring the market opportunities and responding in such a way as to maximise the value of nuts processed.

### Building blocks of our future







*New equipment being installed at the factory – new walnut cracking plant has been purchased to improve factory efficiency and the quality of our product.*

### **Increasing volumes**

The shortfall in the volume of nuts available to be processed this year is a disappointment; however, we can still look forward to significant increases in volume in future years as older orchards enjoy significant increases in yield and more recent plantings start to enter production.

### **Funding growth**

As walnut production grows we are faced with increased funding demands for working capital and equipment replacement and upgrades. We are no different to most other business in this respect.

### **Risk management and contingency plans**

We operate in a volatile growing environment and are also subject to normal commercial operating risks. To that end we will continue to monitor developing trends in the industry in an attempt to stay one step ahead.

## Market development

When operating in a supply-constrained environment such as ours the temptation is to ignore market development. However this area of the business provides some significant opportunities for us to add further value to our products. By identifying and targeting our superior New Zealand grown nuts into markets where we will achieve maximum value we will maximise our returns. Canterbury Development Corporation is also providing assistance with this aspect of the business. We expect to make considerable progress in this area over the next two years.

## Conclusions

Being a grower-based co-op we face a few more hurdles than many businesses. The magnitude of compliance requirements to produce the constitution and PDS to fulfil the new requirements<sup>1</sup> did surprise us all. It has only been through the huge amount of work from the board and particularly Heather North and Graeme Nicholas that we have achieved what we have today and we thank them for this. We would also like to also acknowledge the legal expertise provided by Joanna Lim from Simpson Grierson in helping us establish our co-operative. NZWIG provided a \$10,000 loan to assist us with our set-up costs and we appreciate this support.

However, with the complexity of our co-op establishment also comes opportunity in the form of growers being unified in our growing, processing and marketing effort, with the financial strength and sense of belonging that this brings.

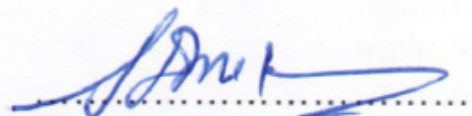
With sound management and foresight we are confident that WNZCL can progress through the next five years and emerge as the primary supplier of quality walnuts in New Zealand and a premium export market supplier. If we can achieve this we will have also maximised value for our grower-shareholders. There will, however, be difficult patches we will need to work through. We will have years of better payouts than others as a result of the variations in harvest quantity and quality and also demands for increased funding for working capital and business growth.

Thank you for supporting your industry by becoming a Shareholder in Walnuts New Zealand Co-operative Limited.



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Colin Prebble  
Chair of Board of Directors



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Shane McKenzie  
General Manager

<sup>1</sup> Under the Financial Markets Conduct Act 2013

## Summary of financial and non-financial performance

### Financial

We are delighted to report that, due to the hard work and expertise of our General Manager, Shane McKenzie, and his team, Walnuts NZ Co-operative Ltd has performed well ahead of budget in the 2015/16 financial year. The following table compares actual financial results with our original forecasts (as included with the Product Disclosure Statement). This table is taken from the complete audited financial statements that appear at the end of this Annual Report.

#### *Product Disclosure Statement (PDS) forecasts compared to actual financial results (\$)*

*Please see the auditor's commentary accompanying this table in the Financial Statements section of this Annual Report.*

	<b>Actual: 31-Mar-16</b>	<b>PDS forecasts</b>	<b>Variance</b>
Revenue – sales	1,084,141	972,128	112,013
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	10,591	(113,665)	124,256
Net profit after tax	(20,171)	(160,753)	140,582
Dividends	-	-	-
Total assets	781,204	420,589	360,615
Cash and cash equivalents	164,162	20,544	143,618
Total liabilities	478,319	196,342	281,977
Total interest-bearing liabilities	140,806	140,807	(1)
Net cash flows from operating activities	(23,176)	(261,382)	238,206

Our sales were ahead of budget, while cost of production was lower than forecast due to efficiency gains made at the factory under Shane McKenzie's leadership. Our EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) was, in fact, positive, rather than the loss we had forecast. Once tax was subtracted we made a small net loss, but this was a much smaller loss than forecast.

The auditor commented that our forecasts were conservative; however, we make no apology for that, believing this to be a responsible course of action in our first year of operation, and particularly in the year of our first share offering to walnut growers. The directors were very pleased with the management of the factory, and the sales and marketing activities, which exceeded expectations.

No dividends have been paid to shareholders in respect of the 2015/16 financial year, and we do not expect to be in a position to pay dividends for at least two more years. As made clear in our Product Disclosure Statement, it will take a few years to turn the company round to be in a position where we can confidently forecast net profits.

## **Non-financial**

We have a number of goals in our purpose statement that promote high standards of behaviour relating to people factors (social responsibility, good relationships with customers, shareholders and staff) and environmental factors.

Though in our first 11 months we have mainly focused on setting up the company's operational, legal and financial structures, and the framework for growers to invest, our non-financial goals have not been forgotten. We have operated to the best of our ability with regard to social and environmental factors, but we do not yet have any specific measures in place to quantify or monitor these aspects.

In the meantime, we offer the following specific examples of some highlights in this area.

*Health and safety* – we have developed and implemented a health and safety plan and, in March, we further reviewed it based on the new Health and Safety in Employment Act. We will be running facilitated workshops with staff soon.

*Biogro certification* – we recently achieved Biogro certification for WNZCL (the certification was previously held by Jenny and Malcolm Lawrence) – this enables us to process and sell organically certified products.

*Food safety programme* – our programme is currently being reviewed and upgraded to National Certification under the new Food Safety Act. Amongst other things, this would allow us to export.

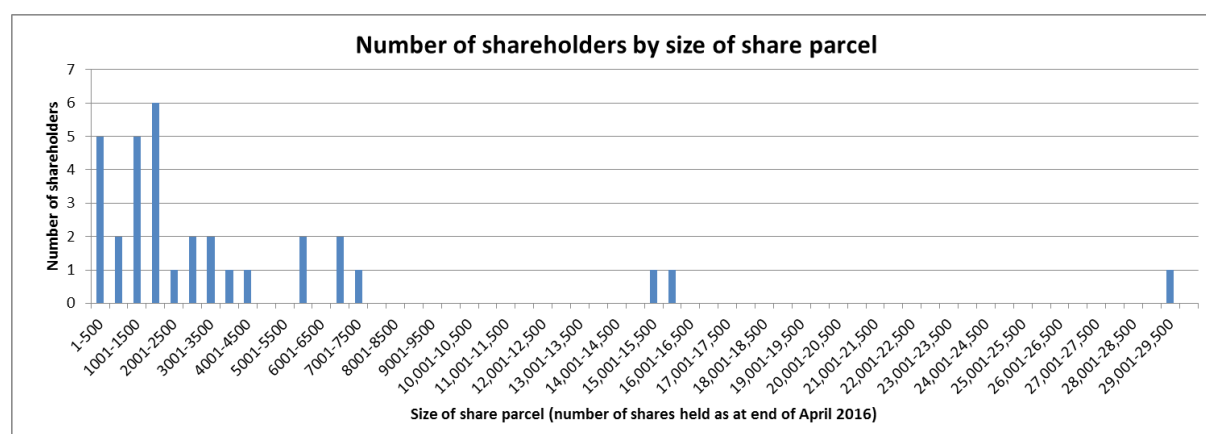
*Positive feedback from customers* – through the transfer from Lawrences to WNZCL, we have retained almost all existing customers and have added some new ones.

*Staff* – factory staff have worked with a positive attitude and have adapted to the necessary changes as the business moves forward.

## Shareholding by walnut suppliers

As at the end of March 2016, the co-operative had 33 shareholders, holding a total of 136,036 shares (since that date, and up to the time of writing in July 2016, a further 11 shareholders have signed up so that the total shareholding is now 143,676 shares). With a share price of \$2.75, the total (gross) capital investment by walnut growers as at the end of March 2016 was \$374,099.00.

Below is a graph of the number of shareholders (as at 31 March 2016) by size of share parcel.



Growers must be shareholders to supply the company if their crop weight is over 2000 kg (in a year). Growers with less than 2000 kg do not have to own shares but are encouraged to do so. As at the end of March 2016, 18 (55%) of our shareholders held 2000 shares or less, a further 12 (36%) held between 2001 and 8000 shares, and the final three (9%) held share parcels larger than 15,000.

As at 31 March 2016, substantial shareholders (holding 5% or more of the shares) were those listed in the table below (note that further suppliers have purchased shares since this date).

Name of holder	Number and percentage of shares as at 31 March 2016
Clive Marsh and Heather North	29,361 shares (21.6%)
Aylesbury Walnuts Limited	15,633 shares (11.5%)
Tunlaw Farm Limited	15,238 shares (11.2%)
Nelson and Wilhelmina Hubber	7,420 shares (5.5%)
BG Growers Limited	6,848 shares (5.0%)

## Setting up our co-operative: milestones

### *Steps leading up to registration of the new co-operative company.....*

2014	Jenny & Malcolm Lawrence indicated they wished to sell their walnut processing and marketing business, 'A Cracker of a Nut' (ACOAN).
6 November 2014	Meeting of walnut growers heard report on ACOAN from Nelson Hubber, Graeme Nicholas and Andrew Horsbrugh; and voted in transitional board of seven directors to establish legal and capital structure for a sector-owned company, negotiate the purchase of ACOAN, and prepare a prospectus to seek sector investment.
November/December 2014	Registration-of-interest process for growers: 36 growers (representing 100 tonnes of predicted supply in 2015) responded that, subject to proper structure and governance, they expected to buy into the proposed company at a level based on volume of supply, and to maintain commitment for at least five years.
December 2014 – April 2015	<p>Tasks of the transitional board included:</p> <ul style="list-style-type: none"> <li>• Investigated possible company structures – decided on grower-owned co-operative.</li> <li>• Developed a statement of purpose for company, and chose name.</li> <li>• Engaged plant valuer to visit ACOAN factory – intention to purchase assets of business including plant, while leasing factory buildings from Lawrences.</li> <li>• Negotiated with Jenny &amp; Malcolm Lawrence around business purchase. Decided on delayed take-over on 1-May, rather than 1-April (beginning of financial year).</li> <li>• Communicated with factory staff over changes; developed new employment contracts.</li> <li>• Drafted co-operative constitution, including in-depth discussion on share structure.</li> <li>• Advertised General Manager role and interviewed candidates.</li> <li>• Began preparation of prospectus to offer shareholding to growers.</li> <li>• Sent out harvest newsletter to growers with instructions for supplying in 2015.</li> <li>• Developed budget for first year of operation, including decision on share price.</li> <li>• Wrote Term &amp; Conditions of Supply document.</li> <li>• Worked on new financial and administrative systems for business at walnut factory.</li> <li>• Set up insurance and bank account.</li> <li>• Held several meetings with growers, set up website for new company.</li> </ul>
29 April 2015	Walnuts New Zealand Co-operative Limited was incorporated under the Companies Act 1993, with its co-operative constitution.
29 April 2015	Sale & Purchase Agreement for purchase of ACOAN business signed with Lawrences.
30 April 2015	Shane McKenzie appointed as General Manager (to start late May)



### *Steps since registration of Walnuts New Zealand Co-operative Ltd.....*

27 May 2015	Shane McKenzie began in new role as General Manager. Prior to this, Nelson Hubber stood in to manage factory during the month of May.
May/June 2015	Directors purchased their shares (based on 2014 crop weight) to provide operating capital for the company.
May 2015 onward....	<p>Shane McKenzie implemented many new initiatives at factory including:</p> <ul style="list-style-type: none"> <li>• Adjusted factory operation hours and layout of equipment for greater efficiency.</li> <li>• Updated financial and administrative systems.</li> <li>• Implemented Health &amp; Safety system.</li> <li>• Updated Food Safety processes and BioGro certification.</li> <li>• Put in place new computer/backup and telecoms systems.</li> <li>• Strengthened existing customer relationships and developed new ones.</li> <li>• Purchased new cracking machine for factory.</li> <li>• Removed racking at factory to increase storage space.</li> <li>• Initiated market research project.</li> <li>• Worked on rationalising products and pricing schedule.</li> </ul> <p>Directors' work included:</p> <ul style="list-style-type: none"> <li>• Continued work on Product Disclosure Statement (including a required change to the constitution), with legal input.</li> <li>• Held several meetings with walnut suppliers.</li> <li>• Held initial strategic planning session.</li> <li>• Set up company register, and records on Companies Office website.</li> <li>• Appointed auditor and company accountant.</li> </ul>
November 2015	Walnut down-payment of \$1/kg made to suppliers (down-payments to directors delayed for several months to assist cashflow).
23 December 2015	Product Disclosure Statement placed on offer register.
January 2016 onward	Established share register, and progressively issued shares as applications came in from walnut suppliers.
March 2016	Completed walnut payouts to suppliers, with share purchase price offset against these where required (walnut payouts to directors delayed for several months to assist cashflow).

## **AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2016**

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**Company directory (page 1)**

**Directors' annual report (pages 2–3)**

**Statement of comprehensive income (page 4)**

**Statement of changes in equity (page 5)**

**Balance sheet (page 6)**

**Cash flow statement (page 7)**

**Notes to the financial statements (pages 8–25)**

**Independent auditor's report (page 26)**

## **AUDITED SHARE REGISTER AS AT 31 MARCH 2016**

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**Share register**

**Independent auditor's report**



**WALNUTS NEW ZEALAND CO-OPERATIVE LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 31 MARCH 2016**

# Walnuts New Zealand Co-operative Limited

Financial Statements  
As at 31 March 2016

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## Contents

- 1. Company Directory
- 2-3. Directors' Report
- 4. Statement of Comprehensive Income
- 5. Statement of Changes in Equity
- 6. Balance Sheet
- 7. Statement of Cash Flows
- 8-25. Notes to the Financial Statements
- 26. Audit Report

# Walnuts New Zealand Co-operative Limited

Company Directory  
As at 31 March 2016

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Issued Capital	136,036 Class A Shares
Registered Office	142 Tricketts Road, West Melton, Christchurch 7676
Directors	Francis VR Brenmuhl Nelson J Hubber Andrew K Horsbrugh Basil Meyer Trevor G Nicholas Heather North Colin R Prebble
Company Number	5645689
Auditors	PKF Goldsmith Fox Audit
Accountants	Rodgers & Co Limited Christchurch
Bankers	Westpac, Rolleston
Solicitors	Simpson Grierson, Auckland
Date of Formation	29 April 2015
Nature of Business	Walnuts processing and marketing
Business Location	West Melton Christchurch

# Walnuts New Zealand Co-operative Limited

## Directors' Annual Report For the Period Ended 31 March 2016

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The Directors hereby present their Annual Report including Financial Statements of the company for the 11 month period ended 31 March 2016.

Section 211 of the Companies Act 1993 requires the following disclosures:

### Principal Activities

The business of the company is Walnuts processing and marketing . The nature of the company's business has not changed during the period.

### Auditors

The company's Auditors for the period ended 31 March 2016 are PKF Goldsmith Fox Audit. PKF Goldsmith Fox Audit are willing to continue as the company auditors.

Fees paid and due to the Auditors are \$8,750 for the audit of the financial statements (included in the Statement of Comprehensive Income) and \$7,350 for assistance with the Product Disclosure Statement (included in transaction costs offset against Share Capital). Refer to Notes 5 and 18a in the Notes to the Financial Statements. In addition, there will be a charge of \$750.00 plus GST for the audit of the Share Register, which will be accounted for in the year ending 31 March 2017.

### Directors Holding Office

The following Directors held office during the period (appointed in April 2015):

Francis VR Brenmuhl  
Nelson J Hubber  
Andrew K Horsbrugh  
Basil Meyer  
Trevor G Nicholas  
Heather North  
Colin R Prebble

No directors resigned during the period.

### Director's Remuneration

Directors' remuneration paid was as follows:

	2016
	\$
Nelson J Hubber	6,225

### Directors' Disclosures

The following transactions were entered into with the Directors of the company as transacting shareholders:

- Purchase of 80,956 Shares at \$2.75 each.

The Board of Directors received no notices from Directors wishing to use company information received in their capacity as Directors which would not have ordinarily been available.

**Walnuts New Zealand  
Co-operative Limited**

**Directors' Annual Report  
For the Period Ended 31 March 2016**



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**Donations**

No donations were made by the company during the period.

For and on behalf of the Board of Directors,

Director

A handwritten signature in blue ink, appearing to be 'J. R. [unclear]', written over a horizontal line.

Director

A handwritten signature in blue ink, appearing to be 'Hester [unclear]', written over a horizontal line.

Date: 11 July 2016

# Walnuts New Zealand Co-operative Limited

## Statement of Comprehensive Income For the Period Ended 31 March 2016

	Note	2016 \$
Sales	2	1,084,141
Cost of Sales	3	<u>(814,557)</u>
<b>GROSS PROFIT</b>		269,584
Other Income	2	1,626
Depreciation	13	(27,691)
Finance Costs		(5,622)
Other Operating Costs	4	<u>(260,619)</u>
<b>LOSS BEFORE INCOME TAX</b>		<u>(22,722)</u>
Income Tax Expense	10	2,551
<b>NET LOSS FOR THE PERIOD</b>		<u><u>(\$20,171)</u></u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u><u>(\$20,171)</u></u>

# Walnuts New Zealand Co-operative Limited

## Statement of Changes in Equity For the Period Ended 31 March 2016

	Note	2016 \$
<b>EQUITY AT START OF PERIOD</b>		-
<b>SURPLUS/(LOSS)</b>		
Loss after Tax		(20,171)
<b>Total Income and Expense</b>		(20,171)
<b>OTHER MOVEMENTS</b>		
Share Capital	18(a)	323,056
<b>EQUITY AT END OF PERIOD</b>		<u>\$302,885</u>
<b>MOVEMENTS IN RETAINED EARNINGS</b>		
Net Loss	18(b)	(20,171)
<b>Retained Earnings at End of Period</b>		(20,171)
<b>MOVEMENTS IN ISSUED CAPITAL</b>		
Net Shares Issued	18(a)	323,056
<b>Balance at End of Period</b>		<u>323,056</u>
		<u>\$302,885</u>

# Walnuts New Zealand Co-operative Limited

## Balance Sheet As at 31 March 2016

	Note	2016 \$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	8	164,162
Taxation	10	3,006
Trade and other receivables	19	175,270
Inventories	12	<u>179,932</u>
<b>Total Current Assets</b>		522,370
<b>NON-CURRENT ASSETS</b>		
Property, plant & equipment	13	192,334
Intangibles	14	<u>66,500</u>
<b>Total Non-Current Assets</b>		258,834
<b>TOTAL ASSETS</b>		<u>781,204</u>
<b>CURRENT LIABILITIES</b>		
GST due for payment		21,020
Trade and other payables	20	290,575
Provisions	21	15,918
Term loans - current portion	15	<u>61,022</u>
<b>Total Current Liabilities</b>		388,535
<b>NON-CURRENT LIABILITIES</b>		
Term liabilities	15	<u>89,784</u>
<b>Total Non-Current Liabilities</b>		89,784
<b>TOTAL LIABILITIES</b>		<u>478,319</u>
<b>NET ASSETS</b>		<u><u>\$302,885</u></u>
Represented by:		
<b>EQUITY</b>		
Share capital	18(a)	323,056
Retained Earnings	18(b)	<u>(20,171)</u>
<b>TOTAL EQUITY</b>		<u><u>\$302,885</u></u>

For and on behalf of the Board :



# Walnuts New Zealand Co-operative Limited

## Cash Flow Statement For the Period Ended 31 March 2016



	Note	2016 \$
<b>Cash Flows from Operating Activities</b>	9	
<u>Cash was received from:</u>		
Receipts from customers		1,068,388
Interest received		1,626
		<u>1,070,014</u>
<u>Cash was paid to:</u>		
Payments to suppliers and employees		1,058,674
Rent paid		23,641
Interest paid		5,622
Net GST paid to IRD		4,798
Income tax paid		455
		<u>1,093,190</u>
<b>Net Cash Inflow (Outflow) from Operating Activities</b>		<u>(23,176)</u>
<b>Cash Flows from Investing Activities</b>		
<u>Cash was received from:</u>		
Proceeds from sale of fixed assets		253
		<u>253</u>
<u>Cash was paid to:</u>		
Purchase of fixed assets		220,278
Purchase of intangible assets		66,500
		<u>286,778</u>
<b>Net Cash Inflow (Outflow) from Investing Activities</b>		<u>(286,525)</u>
<b>Cash Flows from Financing Activities</b>		
<u>Cash was received from:</u>		
Loan advances received		195,000
Shares issued less transaction costs		323,056
		<u>518,056</u>
<u>Cash was paid to:</u>		
Loan principal repayments		44,193
		<u>44,193</u>
<b>Net Cash Inflow (Outflow) from Financing Activities</b>		<u>473,863</u>
<b>NET INCREASE (DECREASE) IN CASH HELD</b>		<u>164,162</u>
Cash and cash equivalents as at 1 May 2015		-
<b>Cash and Cash Equivalents as at 31 March 2016</b>	8	<u><u>164,162</u></u>

This Statement is to be read in conjunction with the Notes to the Financial Statements and the audit report



## **1. STATEMENT OF ACCOUNTING POLICIES**

### **Reporting Entity**

These are the financial statements of Walnuts New Zealand Co-operative Limited ('the company'). Walnuts New Zealand Co-operative Limited is a Co-operative Company incorporated in New Zealand and registered under the Companies Act 1993 and Co-operative Companies Act 1996. Walnuts New Zealand Co-operative Limited is engaged in the business of Walnuts processing and marketing. Its goal is to grow the wealth and security of producer-shareholders by providing them with a path to market for their product.

The Company is an Issuer of a regulated product and a reporting entity for the purposes of the Financial Reporting Act 2013.

The Company is designated as a for-profit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards.

The financial statements for the period ended 31 March 2016 present the financial position of the company as at 31 March 2016 and the financial performance for the 11 months ended on that date.

The Financial Statements presented for the period ended 31 March 2016 were authorised for issue by the Directors on 11 July 2016. The entity's owners do not have the power to amend the financial statements once issued.

### **Basis of Preparation**

The financial statements of Walnuts New Zealand Co-operative Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with Financial International Reporting Standards. The financial statements have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 2013.

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the company, with the exception of certain items for which specific accounting policies have been identified.

The information is presented in New Zealand dollars, which is the Company's functional and presentation currency and all values are rounded to the nearest dollar (\$).

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are Impairment.

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**Accounting Standards and Interpretations**

During the period the company adopted all mandatory new and amended standards and interpretations. At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at balance sheet date, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, and has determined that there would be no material impact to the amounts recognised or disclosed in the financial statements.

**Accounting Standards and Interpretations Issued but not yet effective**

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements, were in issue but not yet effective for the period presented:

NZ IFRS 9 in respect of Financial Instruments, which will be effective for the accounting periods beginning on or after 1 January 2018.

NZ IFRS 15 in respect of Revenue from Contracts with Customers, which will be effective for accounting periods beginning on or after 1 January 2018.

NZ IFRS 16 in respect of Leases being accounted for under a single on-balance sheet model in a similar way to finance leases under IAS 17. This standard will be effective for annual periods beginning on or after 1 January 2019.

**Changes in Accounting Policies**

As these are the first financial statements prepared for the company, there are no changes in accounting policies.

**Comparative Figures**

There are no comparatives as the Company commenced trading on 1 May 2015.

**Frequency of Reporting**

The Company is preparing the financial statements for a period of 11 months only as it was formed on 29 April 2015, and did not commence trading until 1 May 2015.

**Specific Accounting Policies**

In the preparation of these financial statements, the specific accounting policies are as follows:

**(a) Business Combination**

Business combinations are accounted for using the acquisition method. The consideration for acquisition is measured at the fair values of assets given. Costs incurred in connection with the acquisition are recognised as an expense during the period.

**(b) Plant & Equipment**

Plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Where an item of plant and equipment is disposed of or when no further economic benefits are expected from its use; the gain or loss (calculated as the difference between net sales price and carrying amount of the asset) is recognised in the Statement of Comprehensive Income.

The assets residual values, useful lives and depreciation methods are reviewed annually and adjusted if appropriate at each financial year end.

**(c) Depreciation**

Depreciation was provided for in the Statement of Comprehensive Income on a diminishing value basis over the estimated useful life of each asset. The principal rates in use were:

Furniture & Fittings	13% to 16%
Office Equipment	16% to 50%
Plant & Equipment	10% to 67%

**(d) Impairment - Non-financial Assets**

Assets other than deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Income. Any reversal of the impairment loss is recognised as income immediately.

**(e) Shares Issued**

Shares issued by the Company are recorded at the value of proceeds received, net of costs directly attributable to the issue of the shares.

**(f) Intangible Assets**

Intangible assets consists of Goodwill. Goodwill represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired, at the time of acquisition. Goodwill is not amortised, but tested annually for impairment.

Any impairment is recognised within the Statement of Comprehensive Income and may not be subsequently reversed.

**(g) Goods & Services Tax**

These financial statements have been prepared on a GST exclusive basis with the exception of trade and other receivables and trade and other trade payables which are shown inclusive of GST.

**(h) Finance Costs**

Finance costs shall be recognised as an expense in the period in which they are incurred.

**(i) Income Tax**

The income tax expense recognised for the period includes both the current period provision and the income tax effects of timing differences, being deferred income tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current period provision is the expected tax payable on the taxable profit for the period based on tax rates enacted at balance date. Current tax for the period is recognised as a liability or asset in the Balance Sheet to the extent that it is not yet paid or refunded.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available in the future to utilise deductible temporary differences.

**(j) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of processed inventories includes the cost of direct product, direct labour and a proportion of the factory overhead, based on normal operating capacity.

**(k) Leased Assets**

Plant and equipment and land and buildings are leased by Walnuts New Zealand Co-operative Limited.

**Operating Leases**

Operating leases are those which all the risks and benefits are substantially retained by the lessor. Operating lease payments are expensed in the periods the amounts are payable.

**(l) Cash and Cash Equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

**(m) Financial Instruments**

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised in the Balance Sheet when the Company becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either purchase or sell the asset (trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through Statement of Comprehensive Income' in which case transaction costs are expensed to Statement of Comprehensive Income immediately.

**Classification and Subsequent Measurement**

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. In other circumstances, valuation techniques are adopted.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in the Statement of Comprehensive Income.

Financial Assets at Fair Value through Statement of Comprehensive Income

Financial assets are classified at 'fair value through the Statement of Comprehensive Income' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in Statement of Comprehensive Income.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the Statement of Comprehensive Income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. This reversal is recognised in the Statement of Comprehensive Income.

Derecognition of Financial Instruments

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

**(n) Revenue**

Sales of goods are recognised when the company has performed its contractual obligations in respect of that consideration.

Interest income is recognised using the effective interest method.

**(o) Receivables**

Receivables are stated at their estimated realisable value. Bad debts are written off in the year in which they are identified.

**(p) Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**(q) Employee Entitlements**

A liability for holiday pay entitlements is recognised in the balance sheet.

Where the payment is expected to occur more than 12 months after balance date, the liability is recorded at its present value. Where the payment is expected to be made in less than 12 months, the provision is the amount expected to be paid.

**(r) Statement of Cash Flows**

Definitions of the terms used in the Statement of Cash Flows.

"Cash and cash equivalents" comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash.

"Operating Activities" are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

"Investing Activities" are those activities relating to the acquisition and disposal of investment property and any other non-current assets.

"Financing Activities" are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity capital.

**(s) Segment**

The Company operates in one industry and geographic segment. All activities are carried out in Christchurch, New Zealand. The directors review the operating results on a regular basis and make decisions on resource allocation based on the review of results. The nature of goods and services provided have similar characteristics within the operating segment.

**2. OPERATING REVENUE**

	2016
	\$
Sales	1,084,141
Interest Received	1,626
Total Other Income	1,626
Total Operating Revenue	1,085,767

**3. COST OF SALES**

	2016
	\$
Purchases	503,545
Freight	33,104
Employee Expenses - Direct Wages	277,908
Total Cost of Sales	814,557



# Walnuts New Zealand Co-operative Limited

## Notes to the Financial Statements For the Period Ended 31 March 2016

### 4. OPERATING EXPENSES

	2016 \$
Employee Expenses - Wages	118,970
Employee Expenses - Other	2,061
Accident Compensation Levy	2,670
Advertising & Marketing	7,936
Administration Outwork	13,184
Audit Fees	8,750
Bank Charges	758
Cleaning & Laundry	157
Compliance Costs	6,504
Consultancy	6,766
Entertainment	1,134
Freight & Courier	285
General Expenses	311
General Expenses - Factory	2,895
Governance Costs	2,645
Insurance	10,111
Legal & Professional Fees - Set-up	8,008
Other Fees - Set-up	2,204
Light Power & Heating	5,312
Motor Vehicle Expenses	3,559
Motor Vehicle Lease payments	6,282
Plant & Equipment <\$500	2,114
Printing, Stamps & Stationery	6,180
Rents	23,641
Rent - Plant & Equipment	125
Repairs & Maintenance	7,677
Rodent Control	1,325
Subscriptions	1,058
Telephone, Tolls & Internet	2,839
Travel Expenses	5,158
Total Operating Expenses	<u>260,619</u>

Governance costs include an Institute of Directors training course for Heather North, and Insurance costs include Directors' Liability Insurance.

### 5. AUDITOR'S REMUNERATION

	2016 \$
Amounts received or receivable by PKF Goldsmith Fox Audit for:	
Auditing the financial statements	8,750
Other services:	
For assistance with Product Disclosure Statement	7,350
Total	<u>16,100</u>

**6. RELATED PARTIES**

The following transactions with related parties occurred during the period:

(a) Purchases of goods and services

The Directors, who are growers/suppliers of walnuts, undertook trade with the Co-operative during the period at arm's length. The value of these transactions as a group was \$320,255 (including a deduction for drying costs). \$120,156 was outstanding to the Directors at 31 March 2016.

Andrew Horsbrugh, a Director, is the NZ Agent for AMB Rousset, from which Walnuts New Zealand Co-operative Limited purchased equipment during the period. No commission was received by Andrew Horsbrugh from AMB Rousset relating to these purchases.

Basil Meyer, a Director, is the NZ Agent for Feucht Obsttechnik, an overseas supplier for walnut processing. There were no transactions with this supplier during the period.

(b) Key management compensation

Nelson Hubber was the only Director paid for management services during the period, and the total remuneration up until the appointment of a General Manager, was \$6,225.

(c) Loans

The company has a term loan from A Cracker of a Nut Limited for the purchase of the business (Vendor Loan). The Directors of A Cracker of a Nut Limited are shareholders of Walnuts New Zealand Co-operative Limited. The original balance was \$185,000. The loan is secured and interest is charged at 4% p.a. (Refer to Note 15).

(d) Deed of Lease

A Deed of Lease for the lease of the premises and car parks at 142 Tricketts Road, West Melton, Christchurch was entered into on 1 May 2015 with MF & JM Lawrence Partnership for \$24,000 plus GST per annum for the first year, 2016/2017 \$28,000 and 2017/2018 \$33,000, with rights of renewal after three years. MF & JM Lawrence own 4.4% of the Company's shares as at 31 March 2016.

No amounts with any related parties have been written off or forgone during the period.

**7. SECURITIES AND GUARANTEES**

The only securities and guarantees relate to Term Liabilities (refer to Note 15).

**8. CASH & CASH EQUIVALENTS**

	2016
	\$
Cash and bank accounts	164,162
Short Term Deposits	-
	<u>164,162</u>

# Walnuts New Zealand Co-operative Limited

## Notes to the Financial Statements For the Period Ended 31 March 2016

### 9. CASH FLOW INFORMATION

	2016 \$
Net Profit/(Loss) after Taxation	(20,171)
<b>Plus/(Less) Non Cash Items:</b>	
Depreciation	<u>27,691</u>
	27,691
<b>Plus/(Less) Movements in Working Capital</b>	
Decrease (Increase) in accounts receivable	(175,270)
Decrease (Increase) in inventories	(179,932)
Increase (Decrease) in accounts payable, GST due	311,594
Provisions added	15,918
Income tax	<u>(3,006)</u>
	(30,696)
<b>Net Cash Inflow/(Outflow) from Operating</b>	<u><u>(23,176)</u></u>

### 10. TAXATION

	2016 \$
Net Operating Profit/(Loss) Before Tax	(22,722)
Add Non-deductible Expenses	<u>27,369</u>
Net Surplus/(Deficit) for Taxation	<u><u>4,647</u></u>
<b>The Taxation Charge is Represented by</b>	
Current year tax at 28%	1,301
Deferred tax	<u>(3,852)</u>
	(2,551)
Current year tax	1,301
Less	
RWT credits	<u>455</u>
<b>Total Income tax/(Refund) Due per Tax Return</b>	846
Deferred tax	<u>(3,852)</u>
<b>Total Income Tax/(Refund) per Balance Sheet</b>	<u><u>(3,006)</u></u>

### Deferred Tax

	2016 \$
Deferred portion of current year's tax expense	<u>(3,852)</u>
Closing balance	<u><u>(3,852)</u></u>

The tax charge in the Statement of Comprehensive Income reflects the deferred tax on timing differences at period end.

**11. IMPUTATION CREDIT ACCOUNT**

At balance date imputation credits available to the shareholders were

	2016 \$
Opening Balance	-
RWT credits attached to Interest income received	455
Closing Balance	<u>455</u>

**12. INVENTORIES**

	2016 \$
Shelf/Processed Stock	47,295
Growers Stock	132,637
Total Inventories	<u>179,932</u>

**Inventory Commitments**

A general security interest is held over all property by A Cracker of a Nut Limited which includes inventories.

**13. PLANT & EQUIPMENT**

	2016 \$
<b>Furniture &amp; Fittings</b>	
At cost	2,495
Less accumulated depreciation	(320)
	<u>2,175</u>
Current year depreciation	320
	<u>320</u>
<b>Office Equipment</b>	
At cost	7,813
Less accumulated depreciation	(3,091)
	<u>4,722</u>
Current year depreciation	3,091
	<u>3,091</u>
<b>Plant &amp; Equipment</b>	
At cost	209,717
Less accumulated depreciation	(24,280)
	<u>185,437</u>
Current year depreciation	24,280
	<u>24,280</u>
<b>Total Plant &amp; Equipment</b>	<u>\$192,334</u>
<b>Total Depreciation &amp; Impairment for the period</b>	<u>\$27,691</u>

**14. INTANGIBLES**

	2016 \$
<b>Goodwill</b>	
On Acquisition - Vendor Financed	50,000
On Acquisition - 6,000 shares issued at \$2.75	16,500
Closing Balance	66,500
Total Intangibles	<u>\$66,500</u>

The 6,000 shares were issued at \$2.75 per share to MF & JM Lawrence, Directors of A Cracker of a Nut Limited.

**15. TERM LIABILITIES**

Term Liabilities, are detailed below along with the original term, security and interest rate as at balance date.

	2016 \$
Term liabilities at balance date:	
<u>Loan - A Cracker of a Nut Ltd (Vendor Finance)</u>	140,806
Interest rate: 4% per annum	
Term: 36 Months from 1 May 2015	
Monthly Repayments: Equal monthly payments	
<u>Loan - NZ Walnut Industry Group</u>	10,000
Interest rate: 0% per annum	
Term: 36 months from 1 May 2015	
Monthly Repayments: Not required	
	<u>150,806</u>

Repayable as follows:

Less than one year	61,022
One to five years	89,784
Total	<u>150,806</u>

**Securities & Guarantees**

- A General Security Interest in favour of A Cracker of a Nut Limited in respect of all of the right, title and interest in all property. Maximum priority sum \$300,000.

- The loan from NZ Walnut Industry Group is unsecured.

# Walnuts New Zealand Co-operative Limited

## Notes to the Financial Statements For the Period Ended 31 March 2016

### 16. OPERATING LEASE COMMITMENTS

	2016 \$
<b>Rent of Property</b>	
Less than one year	28,000
Greater than one year and no greater than five	<u>33,000</u>
	<u>\$61,000</u>
<b>Lease of Plant/Vehicles</b>	
Less than one year	8,376
Greater than one year and no greater than five	<u>16,752</u>
	<u>\$25,128</u>

### 17. CAPITAL EXPENDITURE COMMITMENTS

At period end Walnuts New Zealand Co-operative Limited has committed \$12,000 to the completion of the walnut and shelling line (plant and equipment).

### 18. SHAREHOLDERS' EQUITY

#### (a) Capital

	2016 \$
136,036 Class A Shares	374,099
Transaction Costs	(51,043)
<b>Total Issued and Paid up Capital</b>	<u><u>323,056</u></u>

The Company incurred transaction costs of \$51,043 for legal and professional fees and distribution costs relating to the issue of new shares during the period, which have been deducted from equity (share capital).

At period end Walnuts New Zealand Co-operative Limited has Class A Shares (with voting rights), which can only be held by suppliers and intending suppliers of walnuts to Walnuts New Zealand Co-operative Limited.

The holder of Class A shares has one vote at shareholder meetings for every 500 shares held in the company (or part thereof). The shares are transferable, with the agreement of the Board.

The shares were authorised and issued at \$2.75 each, and are fully paid up. The shares have no par value.

#### (b) Retained Earnings

	2016 \$
Net Profit/(Loss) after tax	<u>(20,171)</u>
Available for appropriation	<u>(20,171)</u>
<b>Retained Earnings Closing Balance</b>	<u><u>(20,171)</u></u>

**19. TRADE AND OTHER RECEIVABLES**

	2016
	\$
Trade Receivables	174,496
Payments in Advance	774
	<u>175,270</u>

**20. TRADE AND OTHER PAYABLES**

	2016
	\$
Trade Creditors	256,846
Accrued Expenses	19,083
Accrued Wages	12,935
Westpac - Mastercard	1,711
	<u>290,575</u>

The amount for Trade Creditors is made up of \$242,161 owed to growers and \$14,685 owed to other suppliers of goods and services.

**21. PROVISIONS**

	2016
	\$
<u>Current</u>	
<b>Employee Benefits</b>	
Provision for Holiday Pay	15,918
<b>Total Current Provisions</b>	<u>15,918</u>
<b>Total Provisions</b>	<u>15,918</u>

**22. FINANCIAL INSTRUMENTS**

The Company does not enter into any off Balance Sheet debt financial instruments. All financial instruments are recognised in the Financial Statements.

The Company's activities expose it to a variety of credit risk, market risk and liquidity risk.

**(a) Credit Risk**

Credit risk is the risk of the failure of a debtor or counterparty to honour its contractual obligation resulting in financial loss to the Company.

Financial assets which potentially subject the Company to credit risk consist of bank balances, trade receivable, and balances due from the Inland Revenue Department. The Company considers the maximum exposure to credit risk is for trade receivables of \$174,496. Cash equivalents are placed with New Zealand banks holding high credit ratings. Collateral is held in respect to financial assets. There were no material impaired or past due debtors as at 31 March 2016.

Financial assets comprise:

	2016 \$
<b>Current Financial Assets</b>	
Cash and Cash Equivalents	164,162
Trade and Other Receivables	174,496
Payments in Advance	774
	<u>339,432</u>

**(b) Market Risk**

Market risk is the risk that changes in market prices will affect the Company's profitability. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. The Company considers the most significant market risk to be as follows:

Interest Rate Risk:

The fixed interest rates range between 0% and 4% per annum.

Interest rate sensitivity analysis:

The sensitivity analysis outlined below has been based on the exposure to interest rates for financial instruments at the end of the reporting period.

Based on the Company's average net level of interest bearing debt, the profit and equity for the period ended 31 March 2016 would decrease/increase by \$1,182 if there was a movement of plus/minus 100 basis points.

**(c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The directors are responsible for the Liquidity Risk Management and as such have built an appropriate liquidity risk management framework for the management of short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Management also determines the timing and level of payout to the growers.

The following table details exposure to liquidity risk:

2016	Less than 1 year	1-5 years	Greater than 5 years	Total
Trade and Other Payables	328,359	-	-	328,359
Term Loans	65,544	91,928	-	157,472
Gross Liability	393,903	91,928	-	485,831
Less interest	4,522	2,144	-	6,666
Principal	389,381	89,784	-	479,165

Trade and Other Payables include GST and Provisions.



**(d) Fair Values**

Walnuts New Zealand Co-operative Limited has financial instruments carried at fair value, with the fair value of all financial instruments equivalent to their carrying value. The following hierarchy defines the valuation method used to value these instruments. Level 3 has been used as the valuation method.

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

**(e) Capital Management**

The Company's capital structure consists of share capital and retained earnings.

Capital Management is the responsibility of the directors to sustain growth and maximise shareholder value.

**23. BUSINESS COMBINATIONS DURING THE PERIOD**

On 1 May 2015 Walnuts New Zealand Co-Operative Limited purchased the business of A Cracker of a Nut Limited, a small privately owned walnut processor.

The business combination was undertaken to provide a large number of walnut growers certainty over the future purchasing of their walnuts. This will be achieved through their common goals of:

- Reliable supply of premium-value product to our consumers
- Providing a path to market for our shareholders
- Efficient and effective processing and cohesive marketing
- Unity of purpose amongst our suppliers
- Behaviour that is socially, financially and environmentally responsible.

The Purchase price was made up of:

Plant and equipment:	\$135,000
Goodwill:	\$ 66,500

The fair value of the total consideration: \$201,500

No other assets or liabilities were transferred at acquisition date.

This business combination was financed through Vendor financing of \$185,000 on the terms found in Note 15, and the issue of 6,000 fully paid shares at \$2.75 each.

**24. GOING CONCERN**

The company made a loss for the period ended 31 March 2016 and is dependent upon the continued support of its shareholders and financiers. The directors are satisfied with the trading results post period end to support the going concern assumption.

**25. CONTINGENT LIABILITIES**

At balance date there are no known contingent liabilities. Walnuts New Zealand Co-operative Limited has not granted any securities in respect of liabilities payable by any other party.

**26. EXCEPTIONAL OPERATING RISKS**

The Company does not have any exceptional operating risks.

**27. SIGNIFICANT EVENTS AFTER BALANCE DATE**

The following significant event occurred after balance date:

It was realised at harvest the implications of the frosts sustained in November 2015. This will have a significant negative impact on the supply of walnuts and financial results for the year ending 31 March 2017.

**28. PRODUCT DISCLOSURE STATEMENT FORECASTS  
COMPARED TO ACTUAL**

	<b>Actual 31-Mar-16</b>	<b>Product Disclosure Statement Forecasts</b>	<b>Variance</b>
Revenue - Sales	1,084,141	972,128	112,013
Earnings Before Interest, Tax, depreciation and amortisation (EBITDA)	10,591	(113,665)	124,256
Net Profit after tax	(20,171)	(160,753)	140,582
Dividends	-	-	-
Total Assets	781,204	420,589	360,615
Cash and cash equivalents	164,162	20,544	143,618
Total Liabilities	478,319	196,342	281,977
Total interest-bearing liabilities	140,806	140,807	(1)
Net Cash Flows from Operating Activities	(23,176)	(261,382)	238,206

**Commentary**

Revenue - Sales	Forecasts were conservative
Earnings Before Interest, Tax, depreciation and amortisation (EBITDA)	Forecasts were conservative. The Directors are pleased with the performance of Management in the first year of operation, which has exceeded expectations.
Net Profit after tax	Forecasts were conservative.
Dividends	No dividend proposed.
Total Assets	Trade Receivables were expected to be significantly lower (\$68,000 less) due to the majority of the 2015 crop forecast to have already been processed, sold and paid for.  Stock values were expected to be significantly lower (\$135,000 less) due to the majority of the 2015 crop forecast to have already been processed and sold.  Fixed Assets were expected to be lower (\$29,000 less), however new machinery was purchased to automate the processing of walnuts.  Intangible Assets were expected to be lower (\$47,000 less). Forecasts were conservative with regards to the potential impairment of the Goodwill arising from the purchase of the business from A Cracker of a Nut Limited.
Cash and cash equivalents	Forecasts were conservative.
Total Liabilities	Sundry Creditors were forecast to be lower (\$270,000 less), the actual balance has inflated due to the Directors agreeing to withhold their year end grower payments to ensure the Co-operative Company has sufficient cash flows to continue trading.
Total interest-bearing liabilities	In line with Directors' expectations.
Net Cash Flows from Operating Activities	Forecasts were conservative.

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Walnuts New Zealand Co-Operative Limited

### Report on the Financial Statements

We have audited the accompanying financial statements of Walnuts New Zealand Co-Operative Limited, which comprise the Balance Sheet as at 31 March 2016, Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the 11 month period then ended, and a summary of significant accounting policies and other explanatory information.

### Directors Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In addition to the audit we have carried out the following assignments; compilation work in relation to the Product Disclosure Statement and the audit of the Share Register which is compatible with independence requirements. Other than the audit and these assignments, we have no relationship with or interests in, Walnuts New Zealand Co-Operative Limited.

### Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Walnuts New Zealand Co-Operative Limited as at 31 March 2016 and of its financial performance and its cash flows for the 11 month period ended thereon, in accordance with New Zealand Equivalents to International Financial Reporting Standards.

### Emphasis of Matter

Without modifying our opinion we draw attention to note 24, going concern, and the Co-Operatives reliance on the continued support of its shareholders and financiers.

*PKF Goldsmith Fox Audit.*

12 July 2016  
Christchurch, New Zealand

# WALNUTS NEW ZEALAND CO-OPERATIVE LIMITED

## Share Register as at 31 March 2016

Registration Number:	5645689
New Zealand Business Number:	9429041729120
Entity Type:	NZ Co-operative Company
Incorporated:	29 April 2015
Current Status:	Registered
Constitution Filed:	Yes
Annual Return Filing Month:	March
Address for inspection:	Unit 1, 1197 Shands Road, Rd 6, Christchurch, 7676, NZ

SH number	Trading/partnership name of business supplying walnuts	Date of transaction	Nature of transaction	Share class	Shares issued		Shares surrendered/ redeemed		Shares transferred		Price per share (NZ\$)
					Number of shares		Number of shares		Number of shares	To whom transferred (SH number)	
1	Aylesbury Walnuts Limited	29/04/2015	Issue	A	1						2.75
2	BG Growers Limited	29/04/2015	Issue	A	1						2.75
3	MEYER, Basil & MEYER, Gertrud Berta	29/04/2015	Issue	A	1						2.75
4	PREBBLE, Colin	29/04/2015	Issue	A	1						2.75
5	MARSH, Clive & NORTH, Heather Claire	29/04/2015	Issue	A	1						2.75
6	HUBBER, Nelson James & HUBBER, Wilhelmina Agatha Geertruida Maria	29/04/2015	Issue	A	1						2.75
7	Tunlaw Farm Limited	29/04/2015	Issue	A	1						2.75
1	Aylesbury Walnuts Limited	23/11/2015	Issue	A	15,632						2.75
2	BG Growers Limited	23/11/2015	Issue	A	4,099						2.75
3	MEYER, Basil & MEYER, Gertrud Berta	23/11/2015	Issue	A	1,999						2.75
4	PREBBLE, Colin	23/11/2015	Issue	A	3,099						2.75
5	MARSH, Clive & NORTH, Heather Claire	23/11/2015	Issue	A	17,099						2.75
6	HUBBER, Nelson James & HUBBER, Wilhelmina Agatha Geertruida Maria	23/11/2015	Issue	A	1,999						2.75
7	Tunlaw Farm Limited	23/11/2015	Issue	A	4,999						2.75
8	LAWRENCE, Jennifer Margaret & LAWRENCE, Malcolm Fraser	24/11/2015	Issue	A	6,000						2.75
9	CAMMELL, Ross Alan & CAMMELL, Mary-Ann	31/01/2016	Issue	A	2,000						2.75
10	TWOHILL, David Wallis & TWOHILL, Annabel Jane	31/01/2016	Issue	A	200						2.75
11	KNIGHT, Karen Wendy Lyn	31/01/2016	Issue	A	500						2.75
12	SHEERIN, Ian Grant & BREUKELAAR, Johanna Wilhelmina	31/01/2016	Issue	A	5,372						2.75
13	BRENNMUHL, Anna Margaretha; TIEDE, Maria May & TIEDE, Damien	28/02/2016	Issue	A	500						2.75
14	WARDLE, Robert Peter	28/02/2016	Issue	A	2,000						2.75
15	LAURENSEN, Vaughan Gilbert & LAURENSEN, Brenda Millicent	28/02/2016	Issue	A	1,500						2.75
16	EADE, Carol & LEGGETT, John Craig (Trustee)	28/02/2016	Issue	A	1,000						2.75
17	ADAMS, Selwyn Ashcroft & ADAMS, Jeanette Mary	28/02/2016	Issue	A	1,000						2.75
18	HAMILTON, Stuart Donald & HAMILTON, Lynda Barbara	28/02/2016	Issue	A	245						2.75
19	SIGMUND, Anthony Bruce & SIGMUND, Ngaire Frances	21/03/2016	Issue	A	3,486						2.75
20	ELLIS, Linton Gregory & ELLIS, Elizabeth Joy	21/03/2016	Issue	A	1,901						2.75
21	JACOBS, Maureen Claire	21/03/2016	Issue	A	150						2.75
22	CHALMERS, Russell Trevor & CHALMERS, Lynette Lois	21/03/2016	Issue	A	2,998						2.75
23	CLAYTON, Mark Gerald	21/03/2016	Issue	A	1,549						2.75
24	ARMITAGE, Cherry Georgina & ARMITAGE, Timothy George Barry	21/03/2016	Issue	A	2,549						2.75





**WALNUTS NEW ZEALAND CO-OPERATIVE LIMITED**  
**Share Register as at 31 March 2016**

Registration Number:	5645689
New Zealand Business Number:	9429041729120
Entity Type:	NZ Co-operative Company
Incorporated:	29 April 2015
Current Status:	Registered
Constitution Filed:	Yes
Annual Return Filing Month:	March
Address for Inspection:	Unit 1, 1197 Shands Road, Rd 6, Christchurch, 7676, NZ

SH number	Trading/partnership name of business supplying walnuts	Date of transaction	Nature of transaction	Share class	Shares issued	Shares surrendered/ redeemed	Shares transferred		
					Number of shares	Number of shares	Number of shares	To whom transferred (SH number)	Price per share (NZ\$)
25	PANNELL, Gordon Ross; PANNELL, Ngaire Joan & JACKSON, Donald Neil (Trustee)	21/03/2016	Issue	A	3,200				2.75
26	WILLIAMS, Francis Hugh; WILLIAMS, Maureen Theresa & MIDDLEY, John Huntsbury (Trustee)	21/03/2016	Issue	A	2,000				2.75
27	SAVAGE, Karen June & SLEE, Roger Thomas	21/03/2016	Issue	A	5,928				2.75
28	FENTON, Kaylene Ann	21/03/2016	Issue	A	1,196				2.75
29	MARSHALL, Jane Christina Mowat	21/03/2016	Issue	A	1,390				2.75
30	AYRTON, Donald Grant & AYRTON, Allison Maree	21/03/2016	Issue	A	2,006				2.75
31	STEVENSON, Hugh William & STEVENSON, Jillian Margaret	21/03/2016	Issue	A	3,685				2.75
32	VISSER, Paul Andrew & CARMODY, Leigh Bernadette	21/03/2016	Issue	A	616				2.75
33	GILKS, Robin David & GILKS, Stephanie	21/03/2016	Issue	A	207				2.75
2	BG Growers Limited	29/03/2016	Issue	A	2,748				2.75
4	PREBBLE, Colin	29/03/2016	Issue	A	1,356				2.75
5	MARSH, Clive & NORTH, Heather Claire	29/03/2016	Issue	A	12,261				2.75
6	HUBBER, Nelson James & HUBBER, Wilhelmina Agatha Geertruida Maria	29/03/2016	Issue	A	5,420				2.75
7	Tunlaw Farm Limited	29/03/2016	Issue	A	10,238				2.75
10	TWOHILL, David Waffis & TWOHILL, Annabel Jane	29/03/2016	Issue	A	28				2.75
11	KNIGHT, Karen Wendy Lyn	29/03/2016	Issue	A	538				2.75
12	SHEERIN, Ian Grant & BREUKELAAR, Johanna Wilhelmina	29/03/2016	Issue	A	1,158				2.75
16	EADE, Carol & LEGGETT, John Craig (Trustee)	29/03/2016	Issue	A	178				2.75
					<b>136,036</b>				

For and on behalf of the Board:

Director:

Date: 11 July 2016

Director:



## INDEPENDENT AUDITOR'S REPORT

To the Directors of the Walnuts New Zealand Co-Operative Limited

### **Report on the audit compliance of the Register of Securities in accordance with the requirements of Section 218(1) and 219(1) of the Financial Markets Conduct Act 2013**

We have audited the compliance of the Register of Securities of the Walnuts New Zealand Co-Operative Limited with the requirements of Section 218(1) and 219(1) of the Financial Markets Conduct Act 2013 for the 11 month period ended 31 March 2016. The Register of Securities is maintained by Walnuts New Zealand Co-Operative Limited and our engagement has been performed in accordance with the terms of our engagement letter.

#### ***Directors Responsibility for the Register of Securities***

The Directors are responsible for ensuring that the Co-Operative Company maintains the Register of Securities which complies with the requirements of Section 217 of the Financial Markets Conduct Act 2013.

#### ***Auditor's Responsibility***

Our responsibility is to express an independent opinion on the compliance of the Register of Securities of Walnuts New Zealand Co-Operative Limited in terms of the requirements of Section 218(1) and 219(1) of the Financial Markets Conduct Act 2013, in all material respects and report that opinion to you. Our engagement has been conducted in accordance with SAE 3100 to provide reasonable assurance that Walnuts New Zealand Co-Operative Limited has complied with the requirements of Section 217 of the Financial Markets Conduct Act 2013.

An audit includes examining, on a test basis, evidence relevant to ascertaining whether the Register of Securities has been properly kept. It includes assessing whether the general controls surrounding the computer processing system and the specific controls in the registry software are adequate. This assessment is in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the controls operated by Walnuts New Zealand Co-Operative Limited.

These procedures have been undertaken to form a conclusion as to whether the Register of Securities of Walnuts New Zealand Co-Operative Limited has complied, in all material respects, with the requirements of Section 217 of the Financial Markets Conduct Act 2013 for the 11 month period ended 31 March 2016.

In addition to the audit we have carried out the following assignments; audit of the Annual Report and compilation work in relation to the Product Disclosure Statement which is compatible with independence requirements. Other than the audit and these assignments, we have no relationship with or interests in, Walnuts New Zealand Co-Operative Limited.

#### ***Conclusion***

In our opinion, the Register of Securities of Walnuts New Zealand Co-Operative Limited has been maintained in accordance with the requirements of Section 217 of the Financial Markets Conduct Act 2013 for the 11 month period ended 31 March 2016.

*PKF Goldsmith Fox Audit.*

14 July 2016  
Christchurch, New Zealand