



**Walnuts New Zealand Co-operative Limited**

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# **ANNUAL REPORT 2019**

For the year 1 April 2018 to 31 March 2019



**WALNUTS NZ**  
CO-OPERATIVE LTD

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## 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. We operate a walnut processing factory in West Melton, Canterbury. Our range of products is sold nation-wide and includes ground walnuts for food manufacturers, kernel pieces for snacking and baking, in-shell walnuts, and specialist items such as oil, flour and dukkah. Increasingly, our retail products carry our new, unified brand, Trickett's Grove.

Walnuts NZ Co-operative Ltd was incorporated on 29 April 2015 and commenced business on 1 May 2015. On 23 December 2015 we registered a Product Disclosure Statement (PDS) to offer shareholding to walnut suppliers. Shareholding is based on volume of supply, with the share standard being one share per kilogram of walnuts supplied. As at 31 March 2019, we had 49 shareholders holding a total of 204,462 shares (i.e. representing over 204 tonnes of potential walnut supply).

This annual report covers our fourth year in business, from 1 April 2018 to 31 March 2019.

### **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. Generally, directors must be shareholders of the company, though our constitution allows one Appointed Director who is not a shareholder. To date, board members have not been paid for their role as directors, other than the approval in July 2018 of an honorarium for the Company Chair. During the 2018/19 year, Nelson Hubber retired as a director, and we thank him for the hard work and expertise that he has invested in the co-operative. After a call to shareholders for nominations, Paul Visser was appointed to fill the vacancy on the board. Current directors are:

### Frank Brenmuhl (Company 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.*

### Graeme Nicholas (Meeting Chair)

*Graeme and his wife Barbara own BG Growers Ltd, that owns and operates a 10-ha walnut orchard near Springston. Graeme is a social systems researcher and consultant, recently retired from the Institute of Environmental and Science Research. He is a member of the Royal Society of New Zealand and has served on several not-for-profit organisation boards.*

### Heather North (Company Secretary)

*Heather owns a 17-ha orchard near Lincoln with business partner Clive Marsh. Heather is a research scientist, working as a self-employed contractor. She is a member of the Institute of Directors. In addition to her duties as a director, Heather also fulfils the roles of Company Secretary and Share Registrar for Walnuts NZ Co-op, for which she receives a monthly fee.*

### Andrew Horsbrugh

*Andrew and his wife Jo own and operate Tunlaw Farm Limited, a 45-ha walnut orchard in West Melton. Andrew is the Director-Agri Products and Services at Farmlands Co-operative and a member of the Institute of Directors NZ. He is a shareholder/director of Donaghys Limited. Andrew and Jo are also the NZ agent for AMB Rousset walnut harvesting and processing equipment.*

### Basil Meyer

*Basil farms in partnership with Trudi; they have 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.*

### Colin Prebble

*Colin and his wife Karen have an 18-year-old orchard they developed from scratch. Colin is a Chartered Accountant with experience on various boards and committees. He is also a partner in some Christchurch-based hospitality businesses.*

### Paul Visser

*Paul has been involved in the walnut industry since it evolved from the NZ Tree Crops Association. He has held roles of President of Southern Nut Growers Association (Nut Growers of NZ) and several terms as Chairman of the NZ Walnut Industry Group. Paul and Leigh are Walnut Co-op shareholders and have been running their orchard for eighteen years. Paul has been employed in the Police for 43 years and is currently a supervisor in the Communication Centre.*

## Report of the Company Chair

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Since the last AGM, your board and management have been working to make progress towards the goals that we set out in our strategic plan.

Objective 1 is to have an engaged shareholder base that is financially successful and aware of the factors that will make our co-operative thrive.

We have taken prudent steps to ensure that the purchase loan that we originally took up has been paid off. Since then much of the company's efforts have gone into setting up new markets and improving processing efficiency with the aim of getting our walnuts to market with increased margins.

Objective 2 is for the co-operative to be financially successful.

This has not been easy and I would like to thank Shane McKenzie, our General Manager, for the effort he has put in to keep costs under tight control as we go through the transitions to a more focused approach to processing and marketing our walnuts.

The seasonal variations of walnut quality make for significant challenges and our customers expect top quality all of the time.

The subdued market in the 2018/19 year was a factor in the lower payout to growers.

Objective 3 is to be participating in high margin "Super Profit" market sectors.

Significant progress has been made with the launch of our new "Trickett's Grove" Brand, with publicity at both the Christchurch and Auckland Food Shows. A significant amount of work was needed in order to bring this to the market place. The "Trickett's Grove" website is now live and product can be purchased online.

We are progressing well with packaging design and the placement of our product into supermarkets not previously available to us.

Objective 4 is to achieve a significant improvement in operational efficiency.

We made the important decision to purchase a Bühler Sortex optical sorter, which will automate the removal of shell pieces and poor quality kernel. This is a large purchase for the co-operative, and follows extensive enquiries and study of the options. At the time of writing we are setting up a bank loan to finance this purchase.

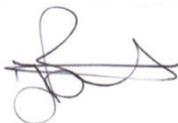
The new sorter is expected to deliver significant efficiency gains for our processing operation. Going forward into the 2019/20 year, the Bühler machine is expected to be vital to our performance because the 2019 crop is generally of poorer quality than we would like due to the wet spring and early summer.

Objective 5 is to build capacity in order to process the expected increase in walnuts supplied to the co-operative in future years.

The new sorter has a high throughput and greatly contributes to our confidence in meeting this objective.

Objective 6 is to have a committed and stable management team.

I would like to reiterate the Board's thanks to Shane and the team at the factory for their efforts in bringing significant progress towards the goals and aspirations of Walnuts NZ Co-operative.



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Frank Brenmuhl  
Company Chair

## Market development and new brand

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A major focus in the past year has been the development of a new retail brand for the Co-operative, to replace the three existing brands Kernelz, Kerakel and Wild. The new **Trickett's Grove** name and logo are distinctly our own, have a premium look and feel, and do not tie us to walnuts alone. The brand is the culmination of several years of hard work, beginning with market research, consideration of our target consumer and a study of our strengths and opportunities, then moving into the selection of our style and visual identity.

New packaging is currently under development, and we are transitioning all our retail products into the new brand. Our products will soon be going out to existing customers in the new packaging, and we will be launching into supermarkets in coming months. The picture shows an example of how the brand looks in use.

Our new website is <https://www.trickettsgrove.nz/> and, at the time of writing, a new online sales platform has been added. We are also on Facebook – do visit, like and share!



Though outside the year in report, we were excited to launch the new brand at the Christchurch Food Show in early April. Factory staff and growers volunteered on our stand to promote the new brand and our fantastic fresh and local product. We had a wonderful response from visitors at the Food Show, who had the opportunity to taste and buy our products. At the time of writing, we also have a stand at the Auckland Food Show in July. This is important, as we have a large and growing market in Auckland.

We will continue to use the walnuts-and-leaves logo for the Co-op itself, and the name 'Walnuts NZ' for our ingredients (non-retail) products.



## Summary of financial performance

Here we review some of the key financial results for the year; for details please see the full audited accounts included in this Annual Report.

### *Selected financial information for 2018/19 financial year compared to previous years*

*For details please see the Financial Statements section of this Annual Report, including the auditor's report. Financial Statements from previous years can be found on the PDS Offer Register at <https://disclose-register.companiesoffice.govt.nz> offer number OFR10376.*

SELECTED FINANCIAL INFORMATION	For the 11 months to 31 March 2016 (\$)	For the Year Ending 30 March 2017 (\$)	For the Year Ending 30 March 2018 (\$)	For the Year Ending 30 March 2019 (\$)
Revenues - Sales	1,084,141	1,215,261	1,237,484	1,137,610
Earnings before interest, tax, depreciation and amortisation (EBITDA)	10,591	(4,572)	42,652	53,609
Net profit after tax	(20,171)	(26,300)	5,437	15,717
Dividends	-	-	-	-
Total assets	781,204	822,375	630,803	932,021
Cash and cash equivalents	164,162	202,524	85,557	266,136
Total liabilities	478,319	489,074	204,856	451,226
Total interest-bearing liabilities	140,806	79,786	16,277	0
Net cash flows from operating activities	(23,176)	70,611	(123,359)	195,958
Current value of share as at end of financial year <i>(total assets minus total liabilities divided by number of shares on issue)</i>	2.23	2.12	2.24	2.35
Comments:	<i>Walnuts New Zealand Co-operative Limited commenced trading on 1 May 2015</i>			

A highlight from early this financial year was paying off the loan for the original purchase of the business in 2015 from A Cracker of a Nut Ltd. The purchase price was \$185,000, and we have steadily paid this off over the scheduled 3-year period.

As shown in the table above, revenue has not changed greatly during the four years. Seasonal weather conditions have caused fluctuations in both volume and quality of walnut supplied to the factory each year, and we have not seen the underlying volume growth that was originally expected. Many orchards are well established and growing toward full canopy cover and we had expected fairly rapid crop increases. However, this has not occurred on all orchards, though it has been the case for some. Walnut quality was generally high from the 2018 harvest, but the domestic retail market was subdued.

Management has demonstrated admirable skill and discipline in controlling costs, to produce our largest net profit to date, even though revenue was flat.

The directors made a decision to reduce the payout to growers by 20c per kilogram in the past financial year, with reasons as follows.

- The market conditions have been subdued.
- The slower-than-expected growth in walnut production that has meant less product volume through the factory and lower share capital than originally forecast.
- The board committed to the purchase of a significant new piece of capital equipment – a smart sorter with capability to automatically remove the majority of shell fragments and dark kernel – expected to greatly improve processing efficiency in the factory. A decision was also made to take on a bank loan to cover the purchase, but additional costs were anticipated relating to commissioning and subsequent changes to the factory's workflows.
- Funding was required for the vital new brand and market development.

The board wishes to thank growers for their patience and commitment in supporting our co-operative through these advances and changes. We realise that improvements in payout have been slower to eventuate than we all hoped for, and wish to assure growers that the board and management are working hard toward this goal.

Other significant financial points:

- No dividends were paid to shareholders in respect of the 2018/19 financial year, and we do not expect to be in a position to pay dividends for several years.
- To assist with cash-flow at the end of the financial year, directors did not receive their full walnut payouts at the same time as other growers. As in previous years, parts of the payments were delayed, to be paid over the following five months, with 8% interest paid on the outstanding amounts.
- The board made the decision made to apply for a \$300,000 bank loan to cover the purchase of the smart sorter and ancillary equipment.

## Summary of non-financial performance

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### Performance against strategic plan

The board initially developed a set of strategic objectives in February 2017 (looking three years ahead). We have needed to adapt the specific actions and plans to cope with changing circumstances and new opportunities, but the overall objectives are still an important framework for prioritising activities and reporting against. Below, we list performance against the stated objectives and also additional work contributing to the company's development.

*Objective 1: Walnuts NZ Co-op enjoys an engaged shareholder base as a result of being well regarded and successful. Growers become financially successful and enjoy participating in their industry and new participants are being attracted.*

- The attendance at the 2018 AGM was 22 people. Fifteen shareholders were represented in person or by proxy (collectively holding 57% of the company's shares), and we received apologies from a further four shareholders.
- During these early years of the Co-operative, funds have gone into paying off the purchase loan for the business and setting up new markets and more efficient processing systems, rather than into increased payouts for growers. Our aim is that these investments will lead to financial success for growers in future, and we thank growers for their commitment as we work toward this.

*Objective 2: Financially successful*

- As shown in the Summary of Financial Performance, the Co-operative's financial strength has been improving year-on-year, and we finished paying off the purchase loan on schedule early this financial year.
- Walnut quality was good in 2018/19, but retail markets were subdued. We achieved our best net profit to date by careful management of expenditure, and by a 20c per kilogram reduction in payout to growers. We realise this is not the desired payout level for growers, but believe that the reduction was the financially prudent course of action for the 2018/19 year.

*Objective 3: Participating in high margin "Super Profit" market sectors*

- Excellent progress was made in 2018/19 toward this strategic goal, with design of our new brand, Trickett's Grove, and a great deal of market development work. Subsequently, the new brand was launched at the Christchurch Food Show and also presented at the Auckland Food Show. Our new website is now live, complete with an online sales platform.
- The next steps are currently in train, with new packaging design and plans for sales into supermarkets.

*Objective 4: Significant improvement in operational efficiency*

- Following in-depth investigation, the decision was made to purchase a Bühler Sortex optical sorter, to automate the removal of shell pieces and dark kernel. This is a large investment for the Co-operative, and is expected to deliver significant efficiency gains for our processing operation.
- With the walnut crop from the 2019 harvest generally of poorer quality due to a very wet spring and early summer, this sorting efficiency is expected to be vital to our performance in the upcoming financial year.

*Objective 5: Build capacity to process and sell the increased supply volumes predicted in coming years*

- The new smart sorter is capable of high volume processing and will greatly contribute to our ability to process expected walnut volumes.
- Our General Manager, Shane McKenzie, has been carrying out extensive market development work. At the time of writing, our new online sales platform is live, and new sales into supermarkets are planned.

*Objective 6: Committed and stable management team*

- The board would like to thank our dedicated General Manager and team at the factory for their hard work and expertise.

**Other non-financial performance**

*Health and safety* – For the full year, we recorded 3 near-miss incidents and no injuries in the factory. During the year we arranged for a review of our health and safety practices by independent advisor Ian Shaw. As part of the process he led a walk-around with staff to re-evaluate hazards. We are carrying out on-going improvements to the sound, lighting and air aspects of the work environment in the factory.

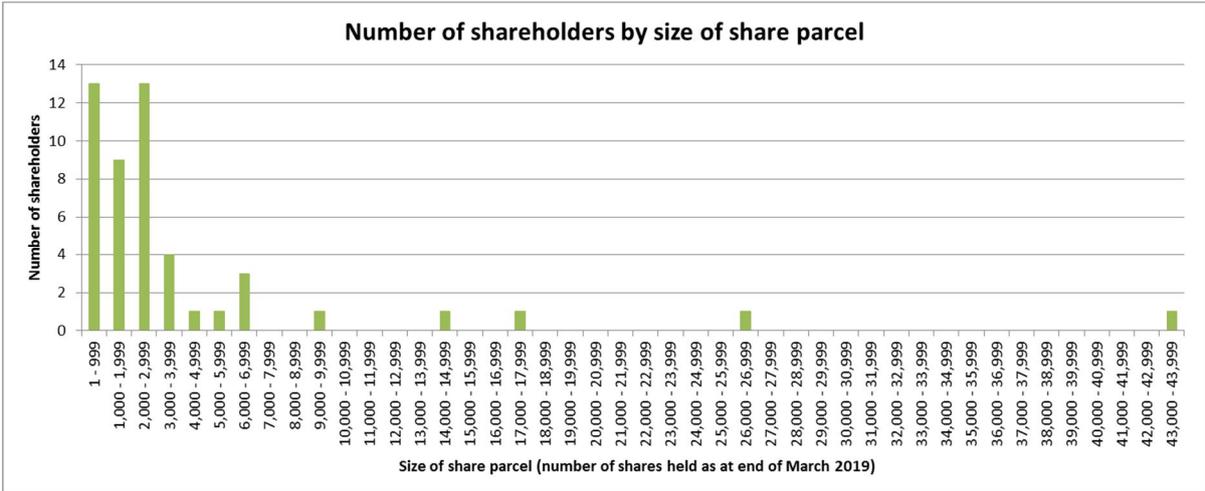
*Food safety programme* – During the year, MPI brought nut and seed producers and processors in under the new Food Act 2014. We have negotiated and submitted to MPI a Multi-site Custom Food Control Plan, which includes not only the factory but also grower-suppliers. We are currently awaiting a response from MPI.

*Sustainable packaging* – Our aim is to use some form of re-usable, recyclable or compostable packaging for the Trickett's Grove brand. Extensive investigation into options has shown this to be difficult at the present time. We require packaging that is light-, air- and oil-proof for the walnuts, and wide differences in recycling capability in different regions of New Zealand mean that no one solution is suitable everywhere. However, we will continue to monitor new developments in packaging materials and recycling potential.

# Shareholding by walnut suppliers

As at the end of March 2019, the co-operative had 49 shareholders, holding a total of 204,462 shares. This is an increase of 14,229 shares since the end of March 2018. With a share price of \$2.75, the total (gross) capital investment by walnut growers as at 31 March 2019 was \$562,270.50.

Below is a graph of the number of shareholders by size of share parcel.



As at the end of March 2019, 22 of our shareholders (45%) held less than 2000 shares, a further 23 (47%) held parcels between 2000 and 9,999 shares, and the final four (8%) held share parcels of 10,000 or more.

As at 31 March 2019, substantial shareholders (holding 5% or more of the issued shares) were those listed in the table below.

Substantial shareholders (holding 5% or more of the issued shares)	Number and percentage of shares as at 31 March 2019
Clive Marsh and Heather North	43,875 shares (21.5%)
Tunlaw Farm Limited	26,512 shares (13.0%)
Aylesbury Walnuts Limited	17,710 shares (8.7%)
BG Growers Limited	14,691 shares (7.2%)

We are pleased to see shareholders beginning to take up the opportunity to transfer shares between one another. In the 2017/18 financial year, one shareholder sold their walnut orchard property, and also sold their shares to the buyer so that the buyer could continue to supply the co-op. In the 2018/19 financial year, a further share transfer took place from a shareholder who was retiring to another shareholder who needed to increase their shareholding to match increased crop supply.

## **AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2019**

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