

# **Macadamia Processing Co Limited**

ABN: 93 002 607 972

General Purpose Financial Report  
for the year ended 31 March 2016

# Macadamia Processing Co Limited

ABN: 93 002 607 972

For the year ended 31 March 2016

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# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Directors' report For the year ended 31 March 2016

Your directors present their report on Macadamia Processing Co Limited and its controlled entities for the financial year ended 31 March 2016.

### Directors

The names of the directors in office at any time during or since the end of the year are:

Christopher Robert Ford  
James Harrower Duncan  
Peter John Costi  
Scott David Norval  
Peter Michael Zadro

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

### Company secretary

The following person held the position of company secretary at the end of the financial year:

Ms Jane Louise Meeve - Bachelor of Commerce, Member of CPA Australia since 1994, Bachelor of Arts and Diploma of Education. Ms Meeve was appointed company secretary on 2 May 1995.

### Principal activities

The principal activities of the Group during the financial year were purchasing, processing and selling of macadamia nuts and macadamia products.

There have been no significant changes in the nature of the Group's principal activities during the financial year.

### Operating results

The consolidated profit of the Group after providing for income tax amounted to \$3,713,742 (2015: \$2,216,304).

### Review of operations

A review of the operations of the Group during the financial year and the results of those operations are as per the attached report.

### After balance day events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### Significant changes in state of affairs

No significant changes in the Group's state of affairs occurred during the financial year.

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## Directors' report For the year ended 31 March 2016

### Likely developments and expected results of operations

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

### Environmental regulation

The Group's operations are not regulated by any significant regulation under the law of the Commonwealth or of a state or territory.

### Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out at page 7. The Board of Directors has considered the provision of non-audit services to the company rendered by RSM Australia Partners to be compatible with maintaining the independence of the auditor.

### Dividends paid or recommended

Dividends paid or declared since the start of the financial year are as follows:

- a. A fully franked dividend of 25c per ordinary share was paid during the year as recommended in last year's report.
- b. A fully franked dividend of 30c per ordinary share was declared on 31 March 2016 for payment from the profit for the financial year ended 31 March 2016.

### Options

No options over issued shares or interests in the company or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

### Indemnification of officers or auditor

An insurance policy is in place for the benefit of Christopher Robert Ford, James Harrower Duncan, Peter John Costi, Scott David Norval and Peter Michael Zadro against liabilities incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of officer of the company, other than conduct involving wilful breach of duty in relation to the company, and claims brought by the shareholders of the company holding more than 15% equity of the company.

### Director information

#### (a) Information on directors

##### *Christopher Robert Ford*

Qualifications

Chairman (non-executive)

Bachelor of Economics (Hons) - Manchester University, England Former fellow of the Institute of Chartered Accountants in England and Wales.

Experience

Past 18 years consultant for the International Monetary Fund, 35 years experience in senior accounting and financial roles with large Australian and international companies/banks, 19 years experience in the macadamia industry.

# Macadamia Processing Co Limited

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## Directors' report

For the year ended 31 March 2016

### (a) Information on directors (continued)

***James Harrower Duncan***

Qualifications

Director (non-executive)

Trained as an engineer and Manager in the U.K. and Australia  
Defence Force Colleges

Experience

Former Naval Officer, Deputy Director of State Development and Technology, Director Commercial Marine and Harbors, Director Australian Design Council and Tourism Board South Australia, Managing Director Hornibrook Constructions and Director Development Baulderstone Hornibrook. Corporate experience business acquisitions, mergers, international trading and business development. Director thyssenkrupp Marine Systems Australia.

***Peter John Costi***

Qualifications

Director (non-executive)

Building Diploma

Experience

Carpenter, Joiner and Macadamia farmer. 23 years involvement in the building industry as a director and shareholder of a commercial construction company and a residential building company. 17 years experience in the macadamia industry.

***Scott David Norval***

Qualifications

Director (non-executive)

Graduate Certificate Business Management (Central Queensland University) (Issued 2009). Ground Engineers Instrument – Electrical, Sydney TAFE 1989

Experience

National Manager Macadamias for RFM Pty Ltd, Company director and secretary of agricultural and constructions companies with prior experience as a compliance officer. 14 Years experience in the macadamia industry from processing to farm management and establishment.

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## Directors' report For the year ended 31 March 2016

### (a) Information on directors (continued)

**Peter Michael Zadro**

Qualifications

Experience

Director (non-executive)

Bachelor of Rural Science (Hons) University of New England, Armidale NSW

For the last 11 years full time involvement with the family business macadamia plantations in QLD, NSW and South Africa. This role has been to provide operational support and direction whilst developing the business as it grows with increasing acreages to use a common database and mapping platform at Hinkler Park Plantation, Victoria Park Plantation and Barberton Valley Plantation. Previously worked for a French multinational telecommunications provider, Alcatel, as an IT project manager, business analyst and programmer for over 16 years and before this with the Department of Agriculture, NSW for three years, with some part time casual involvement in the macadamia family businesses since 1980 on an ongoing basis.

### (b) Meetings of Directors

During the financial year, 8 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:


	Directors' meetings	
	Eligible to attend	Number attended
Christopher Robert Ford	8	8
Scott David Norval	8	8
James Harrower Duncan	8	6
Peter John Costi	8	6
Peter Michael Zadro	8	8

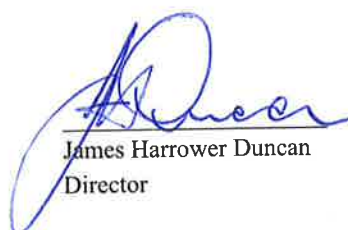
### Proceedings on behalf of company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the Board of Directors

  
Christopher Robert Ford  
Director

  
James Harrower Duncan  
Director

Dated: 12/7/2016.

**RSM Australia Partners**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Macadamia Processing Company Limited for the year ended 31 March 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM

**RSM AUSTRALIA PARTNERS**

A handwritten signature in blue ink, appearing to read "G N Sherwood", with the initials "GNS" written to the right.

**G N Sherwood**  
Partner

Sydney, NSW  
Dated: 12 July 2016

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

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# Macadamia Processing Co Limited

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## Statement of comprehensive income for the year ended 31 March 2016

	Notes	Consolidated		Parent	
		2016	2015	2016	2015
		\$	\$	\$	\$
<b>Continuing operations</b>					
Revenue	2	<b>71,285,113</b>	59,381,147	<b>71,285,113</b>	59,381,147
Other income	3	<b>219,607</b>	204,878	<b>219,607</b>	204,878
Raw materials and consumables used		<b>(57,226,534)</b>	(38,762,926)	<b>(57,226,534)</b>	(38,762,926)
Changes in inventories on hand		<b>1,647,131</b>	(6,295,268)	<b>1,647,131</b>	(6,295,268)
Employee benefits expense		<b>(7,126,576)</b>	(7,507,684)	<b>(7,126,576)</b>	(7,507,684)
Storage and transport costs		<b>(199,642)</b>	(759,594)	<b>(199,642)</b>	(759,594)
Depreciation and amortisation expense	16	<b>(1,016,997)</b>	(941,377)	<b>(1,016,997)</b>	(941,377)
Other expenses		<b>(3,386,328)</b>	(2,772,331)	<b>(3,386,328)</b>	(2,772,331)
Finance costs	4	<b>(411,527)</b>	(688,908)	<b>(411,527)</b>	(688,908)
Share of net profits of associates and joint ventures accounted for using the equity method	14	<b>528,413</b>	125,782	-	-
<b>Profit before income tax expense</b>		<b>4,312,660</b>	1,983,719	<b>3,784,247</b>	1,857,937
Income tax benefit / (expense)	7	<b>(598,918)</b>	232,585	<b>(598,918)</b>	232,585
<b>Profit for the year</b>		<b>3,713,742</b>	2,216,304	<b>3,185,329</b>	2,090,522
<b>Total comprehensive income attributable to:</b>					
Members of the parent entity		<b>3,713,742</b>	2,216,304	<b>3,185,329</b>	2,090,522

There was no other comprehensive income for the period under review.



# Macadamia Processing Co Limited

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## Statement of financial position as at 31 March 2016

	Notes	Consolidated		Parent	
		2016	2015	2016	2015
		\$	\$	\$	\$
<b>Current assets</b>					
Cash and cash equivalents	8	4,052,019	271,259	4,052,019	271,259
Trade and other receivables	9	2,919,744	6,389,760	2,919,744	6,389,760
Inventories	10	9,583,186	7,936,055	9,583,186	7,936,055
Current tax receivable	18	-	311,606	-	311,606
Other assets		116,370	61,185	116,352	61,167
<b>Total current assets</b>		<b>16,671,319</b>	<b>14,969,865</b>	<b>16,671,301</b>	<b>14,969,847</b>
<b>Non-current assets</b>					
Financial assets	11	-	-	2,010,018	2,010,018
Investments accounted for using the equity method	12	3,269,996	2,741,583	-	-
Property, plant and equipment	16	11,083,259	10,440,903	11,083,259	10,440,903
Deferred tax assets	18	429,143	454,296	429,143	454,296
<b>Total non-current assets</b>		<b>14,782,398</b>	<b>13,636,782</b>	<b>13,522,420</b>	<b>12,905,217</b>
<b>Total assets</b>		<b>31,453,717</b>	<b>28,606,647</b>	<b>30,193,721</b>	<b>27,875,064</b>
<b>Current liabilities</b>					
Trade and other payables	17	5,103,633	3,597,237	5,103,633	3,597,237
Borrowings	21	303,000	1,900,000	303,000	1,900,000
Deferred revenue	20	884,000	787,200	884,000	787,200
Short-term provisions	23	1,130,075	1,195,160	1,130,075	1,195,160
Current tax payable	18	423,404	-	423,404	-
<b>Total current liabilities</b>		<b>7,844,112</b>	<b>7,479,597</b>	<b>7,844,112</b>	<b>7,479,597</b>
<b>Non-current liabilities</b>					
Borrowings	21	1,212,000	1,797,000	1,212,000	1,797,000
Long-term provisions	23	70,485	93,581	70,485	93,581
<b>Total non-current liabilities</b>		<b>1,282,485</b>	<b>1,890,581</b>	<b>1,282,485</b>	<b>1,890,581</b>
<b>Total liabilities</b>		<b>9,126,597</b>	<b>9,370,178</b>	<b>9,126,597</b>	<b>9,370,178</b>
<b>Net assets</b>		<b>22,327,120</b>	<b>19,236,469</b>	<b>21,067,124</b>	<b>18,504,886</b>
<b>Equity</b>					
Issued capital	24	4,403,987	4,403,987	4,403,987	4,403,987
Retained earnings		17,923,133	14,832,482	16,663,137	14,100,899
<b>Total equity</b>		<b>22,327,120</b>	<b>19,236,469</b>	<b>21,067,124</b>	<b>18,504,886</b>

The accompanying notes form part of these financial statements.

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## Statement of changes in equity for the year ended 31 March 2016

	Notes	Preference shares \$	Ordinary and A class shares \$	Retained earnings \$	Total \$
<b><u>Consolidated</u></b>					
<b>Balance at 1 April 2014</b>		22	4,403,957	13,095,734	17,499,713
<b>Comprehensive income</b>					
Profit for the year		-	-	2,216,304	2,216,304
<b>Total comprehensive income for the year</b>		-	-	2,216,304	2,216,304
<b>Transactions with owners, in their capacity as owners</b>					
Issue of preference shares	24	8	-	-	8
Dividends paid or provided for	19	-	-	(479,556)	(479,556)
<b>Total transactions with owners</b>		8	-	(479,556)	(479,548)
<b>Balance at 31 March 2015</b>		30	4,403,957	14,832,482	19,236,469
<b>Comprehensive income</b>					
Profit for the year		-	-	3,713,742	3,713,742
<b>Total comprehensive income for the year</b>		-	-	3,713,742	3,713,742
<b>Transactions with owners, in their capacity as owners</b>					
Dividends paid or provided for	19	-	-	(623,091)	(623,091)
<b>Total transactions with owners</b>		-	-	(623,091)	(623,091)
<b>Balance at 31 March 2016</b>		30	4,403,957	17,923,133	22,327,120
<b><u>Parent</u></b>					
<b>Balance at 1 April 2014</b>		22	4,403,957	12,489,933	16,893,912
<b>Comprehensive income</b>					
Profit for the year		-	-	2,090,522	2,090,522
<b>Total comprehensive income for the year</b>		-	-	2,090,522	2,090,522
<b>Transactions with owners, in their capacity as owners</b>					
Issue of preference shares	24	8	-	-	8
Dividends paid or provided for	19	-	-	(479,556)	(479,556)
<b>Total transactions with owners</b>		8	-	(479,556)	(479,548)
<b>Balance at 31 March 2015</b>		30	4,403,957	14,100,899	18,504,886
<b>Comprehensive income</b>					
Profit for the year		-	-	3,185,329	3,185,329
<b>Total comprehensive income for the year</b>		-	-	3,185,329	3,185,329
<b>Transactions with owners, in their capacity as owners</b>					
Dividends paid or provided for	19	-	-	(623,091)	(623,091)
<b>Total transactions with owners</b>		-	-	(623,091)	(623,091)
<b>Balance at 31 March 2016</b>		30	4,403,957	16,663,137	21,067,124

The accompanying notes form part of these financial statements.

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## Statement of cash flows for the year ended 31 March 2016

	Note	Consolidated		Parent	
		2016 \$	2015 \$	2016 \$	2015 \$
<b>Cash flows from operating activities</b>					
Receipts from customers		74,779,591	59,016,782	74,779,591	59,016,782
Payments to suppliers and employees		(65,859,824)	(49,805,074)	(65,859,824)	(49,805,074)
Interest received		15,229	4,855	15,229	4,855
Finance costs		(411,527)	(688,908)	(411,527)	(688,908)
Income tax paid		161,245	(251,789)	161,245	(251,789)
<b>Net cash provided by operating activities</b>	27	<b>8,684,714</b>	<b>8,275,866</b>	<b>8,684,714</b>	<b>8,275,866</b>
<b>Cash flows from investing activities</b>					
Payment for property, plant and equipment	16	(2,223,594)	(1,905,963)	(2,223,594)	(1,905,963)
<b>Net cash used in investing activities</b>		<b>(2,223,594)</b>	<b>(1,905,963)</b>	<b>(2,223,594)</b>	<b>(1,905,963)</b>
<b>Cash flows from financing activities</b>					
Net repayment of borrowings		(2,182,000)	(6,401,000)	(2,182,000)	(6,401,000)
Net proceeds from share issue		-	8	-	8
Dividends paid		(498,360)	(287,543)	(498,360)	(287,543)
<b>Net cash used in financing activities</b>		<b>(2,680,360)</b>	<b>(6,688,535)</b>	<b>(2,680,360)</b>	<b>(6,688,535)</b>
<b>Net increase / (decrease) in cash held</b>		<b>3,780,760</b>	<b>(318,632)</b>	<b>3,780,760</b>	<b>(318,632)</b>
<b>Cash at beginning of year</b>		<b>271,259</b>	<b>589,891</b>	<b>271,259</b>	<b>589,891</b>
<b>Cash at end of year</b>	8	<b>4,052,019</b>	<b>271,259</b>	<b>4,052,019</b>	<b>271,259</b>

The accompanying notes form part of these financial statements.

# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

### 1 Statement of significant accounting policies

The financial report includes the consolidated financial statements and notes of Macadamia Processing Co Limited and controlled entities ('consolidated group' or 'Group'), and the separate financial statements and notes of Macadamia Processing Co Limited as an individual parent entity ('parent entity').

#### Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards' reduced disclosure requirements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial statements were authorised for issue on the 12 July 2016 by the directors.

#### Accounting policies

##### a) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Macadamia Processing Co Limited at the end of the reporting period. A controlled entity is any entity over which Macadamia Processing Co Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in note 15 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests' interest in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

### 1 Statement of significant accounting policies (continued)

#### b) Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to the profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year, and unused tax losses.

Current and deferred income tax expense is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### c) Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and based on current trends and economic data, obtained both externally and within the Group.

##### Key estimates - impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

### 1 Statement of significant accounting policies (continued)

#### c) Critical accounting estimates and judgements (continued)

##### Key judgement - inventory valuation

The principal activities of the Group during the financial year were purchasing, processing and selling of macadamia nuts and macadamia products. There is volatility in the price of the various macadamia products depending on global demand, the geographical spread of the customer base, foreign currency fluctuations and various other factors. There is a degree of estimation uncertainty and judgement required in determining the net realisable value of inventory as a result of this volatility. Management and the board have exercised their judgment in determining the adjustment in respect of the net realisable value write down disclosed in Note 10 to the financial statements.

#### d) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

#### e) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

##### *Depreciation*

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis or diminishing value basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

<b>Class of fixed assets</b>	<b>Depreciation rate</b>
Buildings	2.5-4%
Plant and equipment	7.5-40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

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## Notes to the financial statements for the year ended 31 March 2016

### 1 Statement of significant accounting policies (continued)

#### f) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control of those policies. Investments in associates are accounted for in the consolidated financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost (including transaction costs) and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. In addition, the Group's share of the profit or loss of the associate is included in the Group's profit or loss.

The carrying amount of the investment includes, when applicable, goodwill relating to the associate. Any discount on acquisition, whereby the Group's share of the net fair value of the associate exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Upon the associate subsequently making profits, the Group will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

#### g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

#### h) Financial instruments

##### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is the equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. 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 profit or loss' in which case transaction costs are expensed to profit or loss immediately.

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

### 1 Statement of significant accounting policies (continued)

#### h) Financial instruments (continued)

##### 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 arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method.

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 profit or loss.

The classification of financial instruments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and at the end of each reporting period for held-to-maturity assets.

##### (i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are 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 profit or loss.

The Group did not hold any Financial assets at fair value through profit or loss in the current or comparative financial year.

##### (ii) Loans and receivables

Loans and 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.

Loans and 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.

##### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to be realised within 12 months after the end of the reporting period, which will be classified as current assets.

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

The Group did not hold any held-to-maturity investments in the current or comparative financial year.



# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

### 1 Statement of significant accounting policies (continued)

#### h) Financial instruments (continued)

##### (iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be realised within 12 months after the end of the reporting period.

##### (v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Fees payable on the establishment of loan facilities are recognised as transaction costs of the loan.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### **Impairment**

At the end of each reporting period, the Group assess whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to indicate that an impairment has arisen.

Where a subsequent event causes the amount of the impairment loss to decrease (e.g. payment received), the reduction in the allowance account (provision for impairment of receivables) is taken through profit and loss.

However, any reversal in the value of an impaired available for sale asset is taken through other comprehensive income rather than profit and loss.

Impairment losses are recognised through an allowance account for loans and receivables in the statement of comprehensive income.

#### **Financial guarantees**

Where material, financial guarantees issued which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as financial liabilities at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118 'Revenue'.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

### 1 Statement of significant accounting policies (continued)

#### h) Financial instruments (continued)

##### Derecognition

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 expired. 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.

When available-for-sale investments are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

#### i) Interest in joint ventures

The Group's interest in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interest in joint venture entities are brought to account at cost.

Where the Group contributes assets to the joint venture or if the Group purchases assets from the joint venture, only the portion of the gain or loss that is not attributable to the Group's share of the joint venture shall be recognised. the Group however will recognise the full amount of any loss when the contribution results in a reduction in the net realisable value of current assets or an impairment loss.

Accounting for the joint venture is done by the equity method.

#### j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other-short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

#### k) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

### 1 Statement of significant accounting policies (continued)

#### l) Foreign currency translations and balances

The functional currency of each group entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the yearend exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

#### m) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits.

#### n) Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

#### o) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

#### p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

### q) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### r) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### s) Government grants

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Grant revenue is released over a six year period at \$200,000 per year.

### t) Adoption of new and revised accounting standards

In the current year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>2 Revenue</b>				
Sale of goods	<b>70,971,488</b>	58,036,189	<b>70,971,488</b>	58,036,189
Contract processing	<b>313,625</b>	1,344,958	<b>313,625</b>	1,344,958
	<b>71,285,113</b>	59,381,147	<b>71,285,113</b>	59,381,147

### 3 Other income

Interest	<b>15,229</b>	4,855	<b>15,229</b>	4,855
Government grant income (note 20)	<b>200,000</b>	200,000	<b>200,000</b>	200,000
Foreign exchange gains	<b>4,378</b>	23	<b>4,378</b>	23
	<b>219,607</b>	204,878	<b>219,607</b>	204,878

### 4 Profit for the year before income tax

Profit before income tax from continuing operations includes the following specific expenses:

Finance costs:

Interest costs	<b>181,609</b>	498,953	<b>181,609</b>	498,953
Other costs	<b>229,918</b>	189,955	<b>229,918</b>	189,955
	<b>411,527</b>	688,908	<b>411,527</b>	688,908

### 5 Key management personnel compensation

The totals of remuneration paid to key management personnel (KMP) during the year are as follows:

Short-term employee benefits	<b>120,000</b>	120,000	<b>120,000</b>	120,000
Post-employment benefits	<b>11,400</b>	11,325	<b>11,400</b>	11,325
	<b>131,400</b>	131,325	<b>131,400</b>	131,325

Other KMP transactions:

For details of other transactions with KMP, refer to note 26: Related party transactions.

### 6 Auditors' remuneration

Remuneration of auditor:

-Auditing or reviewing financial statements	<b>45,260</b>	45,260
-Taxation services	<b>3,640</b>	3,640
	<b>48,900</b>	48,900

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>7 Income tax expense</b>				
<b>a) The components of tax expense comprise:</b>				
Current tax expense	573,765	67,038	573,765	67,038
Deferred tax expense	25,153	(289,639)	25,153	(289,639)
Prior year over accrual	-	(9,984)	-	(9,984)
	<b>598,918</b>	<b>(232,585)</b>	<b>598,918</b>	<b>(232,585)</b>
<b>b) The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:</b>				
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2015: 30%)	1,293,798	595,116	1,135,274	557,381
Add:				
Tax effect of:				
Non-deductible expenses	6,041	5,966	6,041	5,966
R&D expense	116,703	4,048	116,703	4,048
Less:				
Tax effect of:				
R&D tax incentive	-	(159,996)	-	(159,996)
T-Corp loan repayment	(659,100)	(630,000)	(659,100)	(630,000)
Prior year over accrual	-	(9,984)	-	(9,984)
Share of net profits joint venture entities netted directly	(158,524)	(37,735)	-	-
Income tax attributable to entity	<b>598,918</b>	<b>(232,585)</b>	<b>598,918</b>	<b>(232,585)</b>
<b>8 Cash and cash equivalents</b>				
Cash on hand	600	600	600	600
Cash at bank	4,051,419	270,659	4,051,419	270,659
	<b>4,052,019</b>	<b>271,259</b>	<b>4,052,019</b>	<b>271,259</b>
<b>9 Trade and other receivables</b>				
Trade receivables	1,349,711	4,470,712	1,349,711	4,470,712
Other receivables	-	5,376	-	5,376
Amount due from a joint venture entity	1,570,033	1,913,672	1,570,033	1,913,672
	<b>2,919,744</b>	<b>6,389,760</b>	<b>2,919,744</b>	<b>6,389,760</b>

### Provision for Impairment of Receivables

Current trade receivables are non-interest bearing and generally on 30-day terms. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. There are no balances within trade and other receivables that contain assets that are impaired. It is expected these balances will be received when due.

### Collateral pledged

A floating charge over trade receivables has been provided for certain debt. Refer to Note 21 for further details.

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>10 Inventories</b>				
At cost				
Raw materials and stores	5,134,560	3,928,934	5,134,560	3,928,934
Finished goods	59,991	41,769	59,991	41,769
At net realisable value				
Finished goods	4,388,635	3,965,352	4,388,635	3,965,352
	<b>9,583,186</b>	<b>7,936,055</b>	<b>9,583,186</b>	<b>7,936,055</b>

Write-downs of inventories to net realisable value recognised as an expense during the year ended 31 March 2016 amounted to \$1,443,209 (2015: \$1,131,957). The expense has been included in 'Changes in inventories on hand' in profit or loss.

## 11 Financial assets

Unlisted investments - non-current, at cost	-	-	<b>2,010,018</b>	2,010,018
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## 12 Investments accounted for using the equity method

Investments in associates (note 13)	3,083,407	2,741,583	-	-
Investments in joint venture (note 14)	186,589	-	-	-
Total investments accounted for using the equity method	<b>3,269,996</b>	<b>2,741,583</b>	-	-

## 13 Investments in associates

Macadamia Processing Co Limited has a 37% (2015: 37%) interest in the associate entity Pacific Gold Macadamias Pty Ltd (formerly Consolidated Nuts (Aust) Pty Ltd), incorporated in Australia, which is involved in processing macadamia products. Consolidated Nuts (Aust) Pty Ltd changed its name to Pacific Gold Macadamias Pty Ltd with effect from 21 December 2015.

The group accounts for its interest in the associate by applying the equity method of accounting.

	2016	2015
	\$	\$
Balance at the beginning of the financial year	2,741,583	-
Transfer from joint venture entities	-	2,564,474
Share of associated company's profit after income tax	341,824	488,366
Adjustment for change in share holding	-	(311,257)
<b>Balance at the end of the financial year</b>	<b>3,083,407</b>	<b>2,741,583</b>
<b>Balance comprises:</b>		
Investment at cost	2,000,000	2,000,000
Cumulative share of profits	1,083,407	741,583
	<b>3,083,407</b>	<b>2,741,583</b>

# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

### 14 Joint venture

Macadamia Processing Co Limited has a 50% interest in the joint venture entity Macadamia Marketing International Pty Ltd, incorporated in Australia, whose principal activity is the sale and marketing of macadamia products.

The Group accounts for its interest in the joint venture by applying the equity method of accounting.

Share of joint venture entity's results and financial position:

	2016	2015
	\$	\$
Balance at the beginning of the financial year	-	2,615,801
Transfer to investments in associates	-	(2,564,474)
Share of joint venture profit / (loss) after income tax	<b>186,589</b>	(51,327)
<b>Balance at the end of the financial year</b>	<b>186,589</b>	-
<b>Balance comprises:</b>		
Investment at cost	<b>10,018</b>	10,018
Share of profits / (losses) limited to investment	<b>176,571</b>	(10,018)
	<b>186,589</b>	-

### 15 Consolidated entities

Name	Country of incorporation	Percentage Owned	
		2016	2015
		%	%
Macadamia Magic Pty Limited	Australia	100	100
International Macadamias Limited	Australia	100	100

### 16 Property, plant and equipment

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
Land and buildings				
At cost	<b>8,110,823</b>	8,110,823	<b>8,110,823</b>	8,110,823
Less: Accumulated depreciation	<b>(3,213,405)</b>	(2,940,978)	<b>(3,213,405)</b>	(2,940,978)
<b>Total Land and buildings</b>	<b>4,897,418</b>	5,169,845	<b>4,897,418</b>	5,169,845
Plant and equipment				
At cost	<b>18,927,078</b>	16,703,483	<b>18,927,078</b>	16,703,483
Less: Accumulation depreciation	<b>(12,741,237)</b>	(11,432,425)	<b>(12,741,237)</b>	(11,432,425)
<b>Total Plant and equipment</b>	<b>6,185,841</b>	5,271,058	<b>6,185,841</b>	5,271,058
<b>Total property, plant and equipment</b>	<b>11,083,259</b>	10,440,903	<b>11,083,259</b>	10,440,903



# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

### 16 Property, plant and equipment (continued)

#### Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Total</b>
	\$	\$	\$
<b>Consolidated</b>			
Balance at 1 April 2015	5,169,845	5,271,058	10,440,903
Additions	-	2,223,594	2,223,594
Disposals	-	(564,241)	(564,241)
Depreciation expense	(272,185)	(744,812)	(1,016,997)
Balance at 31 March 2016	<u>4,897,660</u>	<u>6,185,599</u>	<u>11,083,259</u>
<b>Parent</b>			
Balance at 1 April 2015	5,169,845	5,271,058	10,440,903
Additions	-	2,223,594	2,223,594
Disposals	-	(564,241)	(564,241)
Depreciation expense	(272,185)	(744,812)	(1,016,997)
Balance at 31 March 2016	<u>4,897,660</u>	<u>6,185,599</u>	<u>11,083,259</u>

#### Collateral pledged

A registered first mortgage has been taken out over land and buildings. Refer to Note 21 for further details.

### 17 Trade and other payables

#### Current payables - detailed table

Unsecured liabilities

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	\$	\$	\$	\$
Trade payables	<b>5,028,104</b>	3,382,993	<b>5,028,104</b>	3,382,993
Sundry payables and accrued expenses	<b>75,529</b>	214,244	<b>75,529</b>	214,244
<b>Total</b>	<b><u>5,103,633</u></b>	<u>3,597,237</u>	<b><u>5,103,633</u></b>	<u>3,597,237</u>

### 18 Tax

#### (a) Current tax

##### Asset

Income tax receivable	-	311,606	-	311,606
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##### Liabilities

Income tax payable	<b><u>423,404</u></b>	-	<b><u>423,404</u></b>	-
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# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>18 Tax (continued)</b>				
<b>(b) Deferred tax</b>				
<b>Deferred tax assets</b>				
Accruals and superannuation	27,984	31,361	27,984	31,361
Provisions- employee benefits	178,513	242,386	178,513	242,386
Grant income	265,200	236,160	265,200	236,160
<b>Deferred tax liabilities</b>				
Property, plant and equipment- tax allowance	(42,554)	(55,611)	(42,554)	(55,611)
<b>Closing balance</b>	<b>429,143</b>	<b>454,296</b>	<b>429,143</b>	<b>454,296</b>
<b>19 Dividends</b>				
Proposed final fully franked ordinary dividend	623,091	480,786	623,091	480,786
Reversal of previous years final dividend over-provision	-	(1,230)	-	(1,230)
<b>Total</b>	<b>623,091</b>	<b>479,556</b>	<b>623,091</b>	<b>479,556</b>
<b>20 Deferred revenue</b>				
<b>Government grants</b>				
Grants received	1,084,000	987,200	1,084,000	987,200
Released into income	(200,000)	(200,000)	(200,000)	(200,000)
	<b>884,000</b>	<b>787,200</b>	<b>884,000</b>	<b>787,200</b>
<b>21 Borrowings</b>				
<b>CURRENT</b>				
Secured liabilities				
Bank loans	-	1,100,000	-	1,100,000
New South Wales Treasury Access Finance Loan	303,000	800,000	303,000	800,000
	<b>303,000</b>	<b>1,900,000</b>	<b>303,000</b>	<b>1,900,000</b>
<b>NON CURRENT</b>				
Secured liabilities				
Bank loans	-	400,000	-	400,000
New South Wales Treasury Access Finance Loan	1,212,000	1,397,000	1,212,000	1,397,000
<b>Total</b>	<b>1,212,000</b>	<b>1,797,000</b>	<b>1,212,000</b>	<b>1,797,000</b>

The company had an aggregate Facility limit of \$25,276,200 as at 31 March 2016.

The facility is secured by the following:

- a registered first mortgage by Macadamia Processing over the macadamia nut processing facility at 2 Cowlong Road, Alphadale, NSW.
- a first fixed and floating charge over the assets and undertaking of Macadamia Processing Co Limited, Macadamia Marketing International Pty Limited, International Macadamias Limited and Macadamia Magic Pty Limited.
- a registered first security agreement from Macadamia Processing Co Limited, Macadamia Marketing International Pty Limited, International Macadamias Limited and Macadamia Magic Pty Limited over all present and after-acquired property.
- a master lease agreement for the lease and hire purchase contracts from Macadamia Processing Co Limited.
- a right of entry from Macadamia Processing Co Limited over leased premises at 30 Barlows Road, West Ballina, NSW.
- an unlimited guarantee from Macadamia Processing Co Limited, Macadamia Marketing International Pty Limited, International Macadamias Limited and Macadamia Magic Pty Limited.

# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

### 22 Other financial liabilities

#### Financial guarantees

The Group has potential exposure to guarantees that it has issued to Rabobank in relation to the bank facilities of its associates and joint venture entities, Pacific Gold Macadamias Pty Ltd and Macadamia Marketing International Pty Ltd. Further details relating to these contracts are provided at note 29: Contingent Liabilities.

### 23 Provisions

#### CURRENT

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
Provisions for dividend	605,516	480,786	605,516	480,786
Employee benefits	524,559	714,374	524,559	714,374
<b>Total</b>	<b>1,130,075</b>	<b>1,195,160</b>	<b>1,130,075</b>	<b>1,195,160</b>

#### NON CURRENT

Employee benefits - non current	70,485	93,581	70,485	93,581
<b>Total</b>	<b>1,200,560</b>	<b>1,288,741</b>	<b>1,200,560</b>	<b>1,288,741</b>

#### Consolidated - Analysis of provisions

	Employee Benefits	Dividends	Total
	\$	\$	\$
Opening balance	807,955	480,786	1,288,741
Net provisions raised / (amount used) during the year	(212,911)	124,730	(88,181)
Balance at 31 March 2016	595,044	605,516	1,200,560

#### Parent - Analysis of provisions

Opening balance	807,955	480,786	1,288,741
Net provisions raised / (amount used) during the year	(212,911)	124,730	(88,181)
Balance at 31 March 2016	595,044	605,516	1,200,560

#### Provision for dividend

A provision has been recognised for dividends that have been declared, but are yet to be paid. Refer to note 19 for further dividend information.

#### Provision for employee benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been discussed in Note 1.

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>24 Issued capital</b>				
30 (2015: 30) preference shares	30	30	30	30
2,175,007 (2015: 2,175,007) fully paid ordinary and A class shares	4,403,957	4,403,957	4,403,957	4,403,957
<b>Total</b>	<b>4,403,987</b>	<b>4,403,987</b>	<b>4,403,987</b>	<b>4,403,987</b>

The company has authorised share capital amounting to 10,000,000 ordinary shares of no par value.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings, when a poll is called, each member shall have one vote for each fully paid share held and a fractional vote for each partly paid share held, this fraction being the total paid amount divided by the allotment price. Otherwise each shareholder has one vote on a show of hands.

### A Class shares

A class shares participate in the proceeds on winding up of the parent entity in proportion to the number of shares held.

A class shares are not entitled to participate in dividends.

A class shares are entitled to receive notice of and to attend any general meeting of the Company but will not be entitled to any right to vote at such meetings except in one or more of the following circumstances:

- (i) on proposal to reduce share capital of the Company;
- (ii) on a proposal that affects rights attaching to A class shares;
- (iii) on a proposal for disposal of the whole property, business and undertaking of the Company;
- (iv) on a resolution to approve the terms of a buy back agreement; or
- (v) during the winding up of the Company.

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$

## 25 Operating lease commitments

Non-cancellable operating lease contracted for but not capitalised in the financial statements:

Payable-minimum lease payments				
- not later than 12 months	16,177	10,138	16,177	10,138
- between 12 months and 5 years	12,688	35,070	12,688	35,070
	<b>28,865</b>	<b>45,209</b>	<b>28,865</b>	<b>45,209</b>

# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

### 26 Related party transactions

The Group's main related parties are as follows:

#### a) Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity is considered key management personnel.

For details of disclosures relating to key management personnel, refer to note 5: Key management personnel compensation.

#### b) Joint venture entities that are accounted for under the equity method

The Group has a 50% (2015: 50%) interest in the joint venture entity, Macadamia Marketing International Pty Ltd.

The interest in joint ventures is accounted for in these consolidated financial statements of the Group, using the equity method of accounting.

For details of interests held in joint venture entities, refer to Note 14: Joint Venture.

#### c) Investment in associates that are accounted for under the equity method

The Group has a 37% (2015: 37%) interest in the associates, Pacific Gold Macadamias Pty Ltd.

The interest in associates is accounted for in these consolidated financial statements of the Group, using the equity method of accounting.

For details of interests held in associate, refer to Note 13: Investment in associates.

#### d) Other related parties

Other related parties include immediate family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel, individually or collectively with their immediate family members.

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Transactions with related parties</b>				
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated				
(i) Purchase of goods and services				
Directors and their director-related entities	<u>15,113,697</u>	<u>8,566,235</u>	<u>15,113,697</u>	<u>8,566,235</u>

# Macadamia Processing Co Limited

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## Notes to the financial statements for the year ended 31 March 2016

### 26 Related party transactions (continued)

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
<i>(ii) Sale of goods and services</i>				
A jointly controlled entity, Macadamia Marketing International Pty Ltd	<b>69,861,092</b>	56,887,010	<b>69,861,092</b>	56,887,010
<i>(iii) Trade and other receivables</i>				
Amount due from/(to) a jointly controlled entity, Pacific Gold Macadamias Pty Ltd	<b>54,433</b>	95,045	<b>54,433</b>	95,045
Amount due from/(to) a jointly controlled entity, Macadamia Marketing International Pty Ltd	<b>2,097,990</b>	6,224,008	<b>2,097,990</b>	6,224,008

#### e) Beneficial holdings

The direct, indirect and beneficial holdings of directors and their director-related entities in ordinary shares of the Group as at 31 March 2016 was 815,615 (2015: 736,794) ordinary shares.

### 27 Cash flow information

#### Reconciliation of cash flow from operations with profit after income tax

Profit after income tax	<b>3,713,742</b>	2,216,304	<b>3,185,329</b>	2,090,522
Non-cash flows in profit:				
Depreciation	<b>1,016,997</b>	941,377	<b>1,016,997</b>	941,377
Share of joint ventures net profit after income tax	<b>(528,413)</b>	(125,782)	-	-
Loss on disposal of plant and equipment	<b>564,241</b>	-	<b>564,241</b>	-
Changes in assets and liabilities:				
Decrease / (increase) in trade and other receivables	<b>3,470,016</b>	(409,005)	<b>3,470,016</b>	(409,005)
(Increase) / decrease in prepayments	<b>(55,185)</b>	36,630	<b>(55,185)</b>	36,630
(Increase) / decrease in inventories	<b>(1,647,131)</b>	6,295,268	<b>(1,647,131)</b>	6,295,268
Decrease / (increase) in deferred taxes	<b>25,153</b>	(289,639)	<b>25,153</b>	(289,639)
Decrease / (increase) in trade payables and accruals	<b>1,603,196</b>	(265,480)	<b>1,603,196</b>	(265,480)
Increase/(decrease) in income tax payable	<b>735,010</b>	(194,735)	<b>735,010</b>	(194,735)
Increase/(decrease) in provisions	<b>(212,912)</b>	70,928	<b>(212,912)</b>	70,928
	<b>8,684,714</b>	8,275,866	<b>8,684,714</b>	8,275,866

### 28 Events after the balance sheet date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

# Macadamia Processing Co Limited

ABN: 93 002 607 972

## Notes to the financial statements for the year ended 31 March 2016

### 29 Contingent liabilities

The Group has provided a joint guarantee to Rabobank for the obligations of Macadamia Marketing International Pty Limited and Pacific Gold Macadamias Pty Ltd under its bank facility amounting to \$2,000,000 and \$8,000,000 respectively. The directors are of the opinion that such guarantees are unlikely to have any financial impact on the company in the foreseeable future.

See note 21 for additional information on security and guarantee's in place with the company's bankers.

### 30 Financial risk management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Consolidated		Parent	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	4,052,019	271,259	4,052,019	271,259
Trade and other receivables	2,919,744	6,389,760	2,919,744	6,389,760
<b>Total financial assets</b>	<b>6,971,763</b>	6,661,019	<b>6,971,763</b>	6,661,019
<b>Financial liabilities</b>				
Trade and other payables	5,103,633	3,597,237	5,103,633	3,597,237
Bank loans	1,515,000	3,697,000	1,515,000	3,697,000
<b>Total financial liabilities</b>	<b>6,618,633</b>	7,294,237	<b>6,618,633</b>	7,294,237

### 31 Company details

The registered office and the principal place of business of the Group is:

Macadamia Processing Co Limited  
2 Cowlong Road  
Lismore NSW 2480

# Macadamia Processing Co Limited


ABN 93 002 607 972

## Directors' declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 30, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Australian Accounting Standards - Reduced Disclosure Requirements; and
  - (b) give a true and fair view of the financial position as at 31 March 2016 and of the performance for the year ended on that date of the consolidated group.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

  
Christopher Robert Ford  
Director

  
James Harrower Duncan  
Director

Dated: 12/7/2016



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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
MACADAMIA PROCESSING COMPANY LIMITED**

We have audited the accompanying financial report of Macadamia Processing Company Limited ("the company"), which comprises the statements of financial position as at 31 March 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report 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 made by the directors, as well as evaluating the overall presentation of the financial report.

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

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### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Macadamia Processing Company Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

### *Basis for Qualified Opinion*

As disclosed in Note 10 of the financial statements inventory is carried at a value of \$9,583,186 after taken into consideration an adjustment of \$1,443,209 in relation to the write down of inventory to its expected net realisable value. The quantification of the adjustment is subject to estimation uncertainty and judgement. We were unable to obtain sufficient and appropriate audit evidence in regards to the quantification of this adjustment and consequently, we were unable to determine whether any further adjustments to this amount was necessary.

### *Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial report Macadamia Processing Company Limited is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2016 and of their performance for the year ended on that date; and
- b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

RSM

**RSM AUSTRALIA PARTNERS**

  
**G N Sherwood**  
Partner

Sydney, NSW  
Dated: 19 July 2016