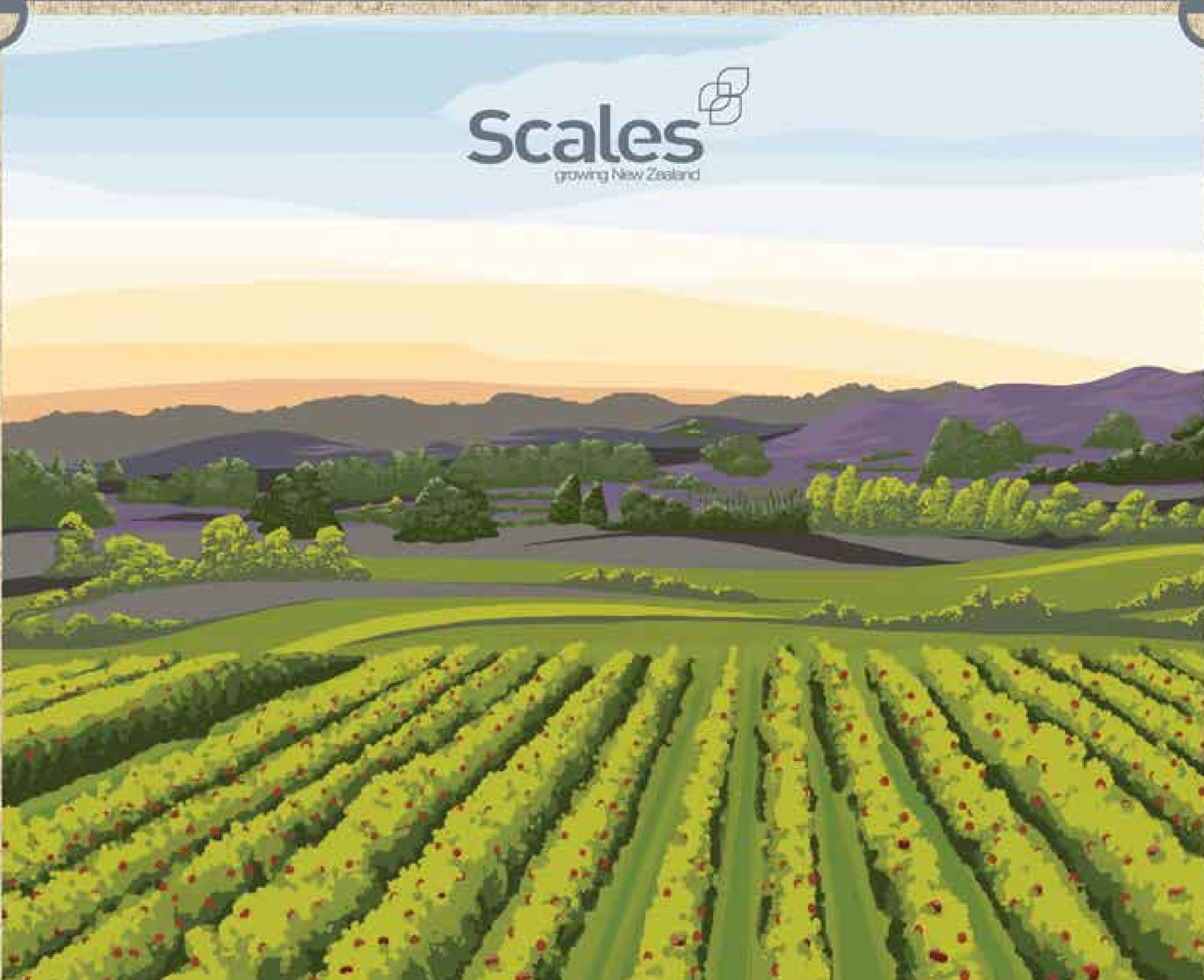
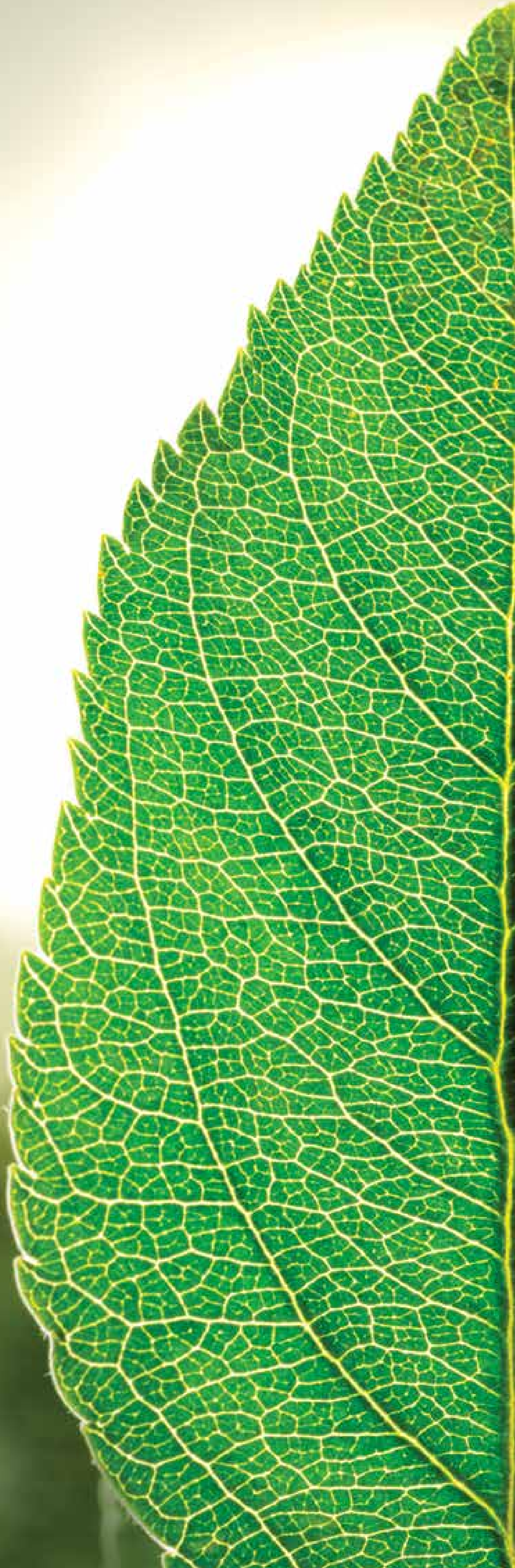


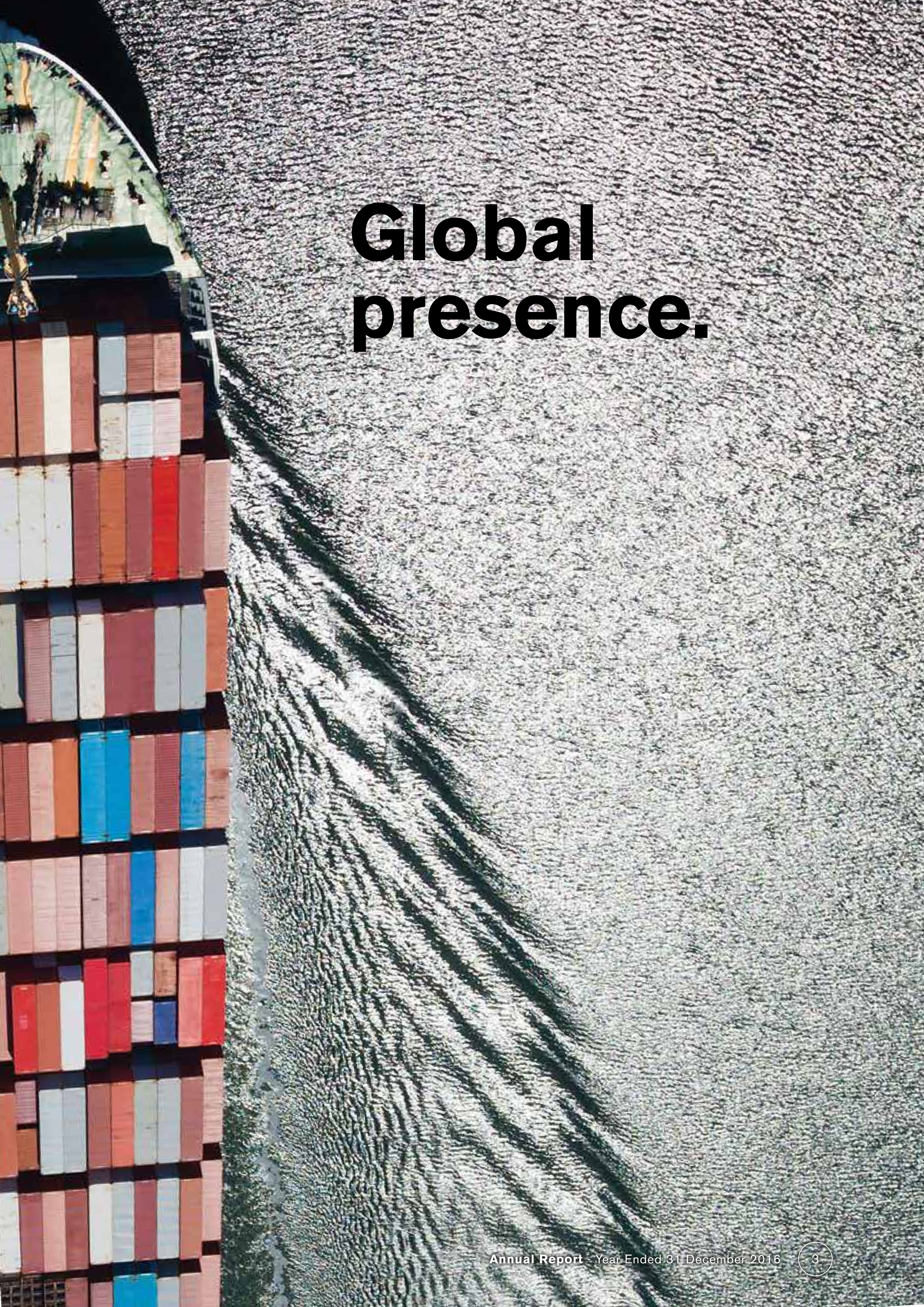
2016
ANNUAL REPORT

National coverage.



Contents

Global presence.



Growing your diversified agribusiness.

We like to think that New Zealand is the best place in the world for growing and producing the highest quality food and ingredients. At Scales we take immense pride in helping to grow New Zealand's agribusiness sector in a manner that is sustainable. We do this through our vertically integrated Horticulture division, by providing critical cold chain and logistics services to key food exporters in our Storage & Logistics division, and by converting agricultural by-products into high quality ingredients in our Food Ingredients division.

In our 105th year Scales achieved and delivered on a number of key developmental milestones. These are discussed in the pages that follow, but include new heights of financial performance, organic and acquisition growth, and improved access and networks into the significant China market.

Horticulture

Vertically integrated apple growers, packers & marketers	Apple marketer[1]
Mr Apple New Zealand; Longview New Zealand	Fern Ridge Fresh

Storage & Logistics

Temperature controlled storage	Air & sea freight	Bulk liquid storage
Polarcold Stores Limited; Whakatu Coldstores Ltd	Scales Logistics; Balance Cargo	Liqueo Bulk Storage Limited

Food Ingredients

Agricultural by-product manufacturers[2]
Meateor Foods Ltd; Profruit (2006) Ltd

1. Scales owns 73 per cent of Fern Ridge Produce Limited (Fern Ridge).
2. Profruit is a 50 per cent joint venture.

Significant strategic developments

Fern Ridge shareholding increased to 73 per cent.

Vertically integrated grower, packer, marketer Longview Group Holdings Limited (Longview) acquired.

China Resources Ng Fung Limited (China Resources Ng Fung) welcomed as a shareholder.

Operating targets exceeded

2.66m TCEs of apples sold to Asia and the Middle East, 5.46m TCEs sold in total by Scales' Horticulture division (Mr Apple and Fern Ridge).

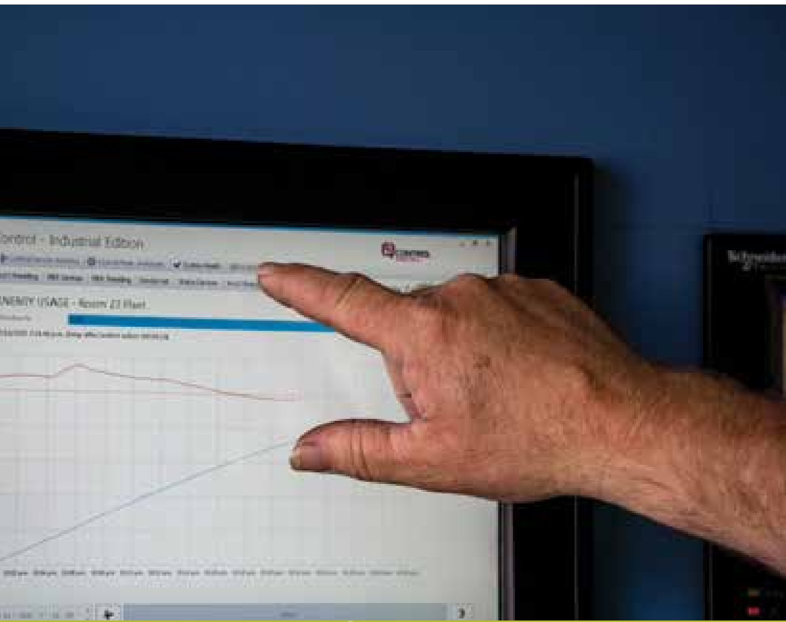
More than half a billion apples picked from Mr Apple's orchards.

5.7M litres of juice concentrate sold.

22,971 MT of petfood ingredients sold by Meateor.

24,713 TEUs organised for international transit by Scales Logistics.

3,306 MT of airfreight cargo managed.



Excellent financial performance

$67.9m Underlying EBITDA, an increase of 11 per cent on 2015 (restated).

A 24 per cent increase in revenue to $374m. A 29 per cent increase in revenue to $230m within the Horticulture division.

27.0c earnings per share.

Ongoing developments in Horticulture

Partner in the master licensing rights for the production and marketing of a new apple variety, Dazzle®, worldwide.

Significant branding work in China undertaken.

Developing our Sustainability reporting

Sustainability materiality review undertaken and feedback received.

Approximately 2.5 Olympic-sized swimming pools of rainwater collected and used in 2016 at the Wiri coldstore.

In the fifth year of the Seasonal Employee/Employer Development (SEED) programme.

Managing Director and Chairman's Report

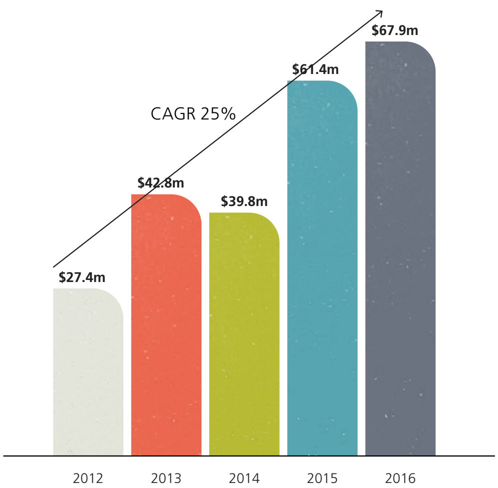
We are delighted to present Scales' third Annual Report as an NZX Main Board listed company and our first within the S&P NZX 50 Index. During 2016 we have successfully consolidated on previous strong financial results to deliver another record profit, 11 per cent ahead of 2015 (restated) on both an Underlying EBITDA and Underlying Net Profit basis.

$'000	2016	2015 (Restated)	Variance %
Underlying EBITDA*	67,856	61,405	11%
Underlying Net Profit*	38,638	34,795	11%
Net Profit	38,178	35,894	6%

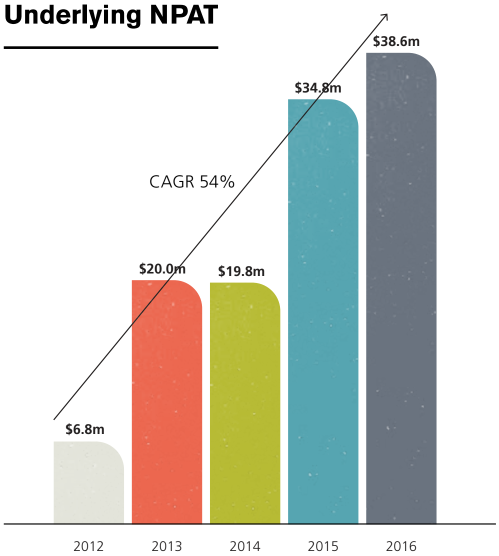
**Underlying Net Profit and Underlying EBITDA are considered by Management and the Board to be the best financial measures to describe the ongoing performance of Scales. Underlying Net Profit adjusts Net Profit for the post-tax implications of any non-cash IFRS adjustments (such as asset revaluations). Underlying EBITDA is calculated by adding back to Underlying Net Profit Net Finance Costs, Tax, Depreciation and Amortisation expenses. A full reconciliation to Net Profit is provided in the sections below.*

This result maintains a steady progression in group profitability. Underlying EBITDA (our preferred profitability metric) has now increased by 147 per cent in the past 4 years, or a compounding annual growth rate (CAGR) of 25 per cent.

Underlying EBITDA



Underlying NPAT



Once again, the trend of improving profitability would not have been possible without the hard work and dedication of our entire team. Scales now employs more than 600 permanent team members, with our ranks swelling to approximately 2,400 during the peak of the apple harvest season. Their hard work, enthusiasm and continued focus on ensuring the highest quality goods and services are provided to our customers is critical to our success. The Scales Board expresses its gratitude for our team's ongoing commitment. In return, we are unwavering in our focus to never stop improving our workforce. As such, it is critical to us that our team members feel safe, respected, and are provided with opportunities to develop and grow their careers.

Health and safety is treated with utmost focus by the Board. It is our first agenda item for every Board meeting and given due consideration and time to ensure all opportunities are being taken and initiatives implemented to improve the safety of our workplace. Health and safety is discussed in more detail in the Sustainability section of this report on the pages that follow.

In addition to the financial results highlighted on the previous page, the 2016 year was marked with a number of developments and milestones achieved:

In January we increased our shareholding in Fern Ridge to 73 per cent. Fern Ridge is an excellent business that increases our marketing sphere of influence in the sale of New Zealand apples. Fern Ridge is capably led by Hamish Davis and his team who continue their roles in the business.

In March we recognised China Resources Ng Fung as a key strategic shareholder in the Group. China Resources Ng Fung brings considerable experience and a wide ranging network to allow us to gradually develop our apple sales throughout China.

The China Resources Ng Fung shareholding was mostly acquired from Direct Capital who have now finalised their sell down in Scales with their shares coming off the IPO escrow early in 2016. We would once again like to acknowledge the significantly positive influence the Direct Capital investment has had on Scales, from an operational, financial and cultural perspective. Mark Hutton, one of the original Direct Capital partners, continues as a Director in Scales.

In June we welcomed Mr Weiyong Wang, CEO of China Resources Ng Fung, to the Scales Board. Mr Wang's rich experience and insightful contribution is highly valued by us and our fellow Directors.

Also in June we welcomed Liz Muller through the Institute of Directors' Future Directors programme as an attendee at Scales' Board Meetings. The Future Directors programme is designed to help develop the next generation of Directors by providing experience at the board room table. It is a pleasure for us to be able to provide these opportunities to aspiring Directors.

In September we entered the S&P NZX 50 Index. This significant milestone is a positive move for existing shareholders, bringing the company to the attention of a wider group of New Zealand and offshore investors.

In November we completed the acquisition of Longview. Longview is a standalone Hawke's Bay grower, packer, and marketer of apples that increases our supply of Asia-focused apples whilst also unlocking post-harvest capacity and synergies to meet the expected future growth in the combined horticulture business. Longview is a well-established business in the Hawke's Bay with a highly experienced and capable team that share our existing customer-centric values.

We exceeded an apple production target that we had set for 2020 four years ahead of plan (3.5m TCEs of our own fruit exported).

We achieved another substantial increase in petfood sales volumes which were up by 13.6 per cent to 22,971 MT. In our Food Ingredients division we are focused on how we can add further value and broaden our offering of high quality New Zealand and Australian ingredients.

The 2016 year was overall extremely positive in terms of financial performance and milestones achieved. However, the performance of our coldstore operations was lower than anticipated. External factors, specifically shortened product turnaround cycles reflecting a generally supportive macroeconomic climate (which in turn benefits our Food Ingredients and Horticulture divisions), climatic conditions resulting in a slow start to the 2016/2017 cropping season, and the exit from New Zealand of a Timaru based customer influenced this result. Momentum gains in Auckland coupled with an expectation of more normal trading cycles are expected to drive improved performance in 2017. We are in the process of conducting an in-depth review of our coldstore business to understand if changes are necessary.

The outlook for Scales remains positive. During 2017 the Group will benefit from the incremental earnings of Longview as well as initiatives developed over the past few years. In addition, we are actively reviewing a number of organic and acquisition growth opportunities. As always we will continue to be patient and disciplined in our approach towards any investment. Opportunities must demonstrate that we will continue to be able to achieve our long-term 15 per cent return on capital employed objectives whilst also demonstrating value in excess of the risk-adjusted returns we would achieve should we replicate the opportunities for ourselves.

Longview

As mentioned, Scales, through its wholly owned subsidiary Mr Apple, acquired the vertically integrated grower, packer and apple marketing business Longview in November 2016.

Longview is an iconic and well established business in the Hawke's Bay. Its history spans more than 100 years, being founded in 1912 by Vincent Caccioppoli. Orcharding runs strongly through the Caccioppoli family, with the orcharding business at Longlands Road near Hastings now into its fourth generation. Vincent's great grandson Michael Caccioppoli (Site Manager) and Marketing Manager Wayne Yule are capable and strong leaders who will continue their involvement in Scales' broader horticultural team.

Longview operates a modern and customised packhouse and coolstore operation with capacity to double existing packhouse throughput. The facility takes advantage of technological developments by operating optical apple grading and sorting equipment as well as pallet stacking and storage robots.

The transaction has a strong strategic rationale for our existing Horticulture division.

Mr Apple is positioning itself to be the supplier of choice in the fast-growing Asian regions[3]. To be the supplier of choice we need to be able to (a) deliver large volumes (b) of consistently high quality fruit (c) in the varieties preferred by near markets (d) to customers across a wide variety of market formats (i.e. wholesale, retail, or online customers).

Longview is a critical addition to our capabilities of meeting our supplier of choice objective through:

High percentage of sales to Asia. Not only does Longview provide us with access to increased apple volumes (via orchards acquired through the transaction and Longview's relationships with external growers) but a high proportion of the volumes handled and sold by Longview are in varieties that are sought after in Asian markets (in 2016 sales to Asia accounted for 62 per cent of Longview's sales).

Access to modern post-harvest infrastructure with surplus capacity. Longview has the capacity to approximately double the packhouse volumes handled during the 2016 season. This capacity will accommodate expected growth in apple volumes as orchards continue to mature. We currently anticipate that the additional capacity will be fully utilised by 2020.

[3]Some of the initiatives being developed by Mr Apple are touched on further in the divisional pages of this report.

Shareholder Returns

Shareholders who invested in the IPO have achieved a 134 per cent[4] return on funds invested to the end of January 2017. By comparison, an investment in the NZX50 would have delivered a 36 per cent return on funds invested over the same period.

Strategy

Scales' Vision

To be the foremost investor in, and grower of, New Zealand agribusinesses by leveraging its unique insights, experience, and access to collaborative synergies.

Our long-term goal

To generate a long-run average 15 per cent Return on Capital Employed (ROCE)[5] across the portfolio.

Strategies to Create Value

Strengthen existing business:

- Continue to strengthen existing divisions and businesses within those divisions by providing appropriate operating and financial support.
- Expand existing divisions through appropriate investment in growth (e.g. investing in proprietary apple varieties such as Dazzle®).
- Invest in new equipment to drive cost efficiencies.

Develop existing divisions or extend agribusiness reach through disciplined and patient investment:

- Investment may either take place by:
  - Acquiring appropriate 'bolt-on' businesses to support existing divisions.
  - Developing new divisions or market sectors.
- We believe that the best and most consistent returns are achieved through operating, or providing a nationwide service to, businesses that are fully vertically integrated. Accordingly, investment must be consistent, or help us to better align, with this core belief. In addition, investment:
  - Should align with our core competencies and deliver collaborative synergies.
  - Meet, or be able to meet, minimum ROCE targets appropriate for their operations. Scales will seek to achieve a minimum of 15 per cent ROCE across its portfolio.
  - Either have scale, be able to reach scale, or enhance the scale of our existing divisions.
  - Retain a focus predominantly, but not exclusively, on New Zealand.
- Investment opportunities that do not meet these criteria will not be developed. Furthermore our holding in any division, or business within a division, that no longer meets our objectives will be subject to review.

A measured approach to risk:

Scales will focus on long-term shareholder return and financial performance. We will not take unnecessary risks for short-term gains but will instead take a measured and occasionally bold approach to improving performance. Our approach is based around ensuring any new acquisition or activity complements or adds to the existing skills, expertise and culture of Scales. We will invest to improve diversification.

Lead the market with transparent, regular, and easy-to-understand communications:

For each division, we will report key operating metrics and trends in these metrics. Whilst commercial sensitivities will preclude us from sharing all information, we will provide as much as we can when we can. We acknowledge that recommendations arising from the NZX corporate governance review are important to our shareholders and we are committed to meeting the standards outlined.

[4]Calculated as the difference between the closing share price on 31 January 2017 plus all net dividends paid (a total of $0.35 per share) and the IPO listing price of $1.60.

[5]Calculated as Underlying EBIT / Capital Employed, where Underlying EBIT is calculated as Underlying Net Profit plus Net Financing Costs and Tax, and Capital Employed is calculated as Non Current Assets plus Current Assets (excluding any Cash or Cash Equivalent balances) less Current Liabilities (excluding any Overdraft or Short-Term Debt balances).

Appropriately Incentivising our Team

Whilst it is the Board that provides strategic input and governance, it is the management team that is accountable for delivering the results.

Scales has implemented a strong incentive based remuneration scheme aligned to its existing culture of positive personal performance and retaining and developing excellent team members over the long term. The Board also recognises that there is a balance between shorter term incentive arrangements and the need to ensure team members remain focused on the longer term objectives of building a strong and sustainable business. The Board continues to be supportive of the Long Term Incentive (LTI) Scheme which we believe is key to driving shareholder wealth and the Board will look to extend a similar scheme on its next review date at the end of 2017 (subject to changes required to reflect any legislative amendments).

The balance between shorter term incentives and long term business interests has been a key feature of the positive Scales' business culture of recent years and its retention and further development is a key component of the Board and Managing Director's major objectives. Scales' remuneration philosophy and a detailed breakdown of executive remuneration is outlined in more detail in the expanded Remuneration Report on page 88. You should note in particular the accounting treatment and implications as it relates to the reported Managing Director remuneration.

Specific Strategic Targets

Division	Target	Status
Group	**Sustainability**	✓ **SIGNIFICANT PROGRESS**
	Develop and evolve our reporting and measuring of key sustainability aspects affecting Scales' businesses. Develop best-in-class sustainability reporting. Demonstrate improvements in sustainability.	Sustainability report developed and included in this Annual Report.
	Financial	✓ **GOOD PROGRESS**
	Position our diversified agribusiness to deliver consistent and sustainable growth in financial performance. Prudently utilise leverage to support equity returns whilst balancing risk.	Strategic acquisitions and developments made in 2016 position the group well for sustained growth. Acquisitions financed via leverage.
	Shareholder returns	✓ **GOOD PROGRESS**
	Reward our shareholders with dividends that represent an attractive yield on current market pricing. Deliver capital gains and shareholder liquidity through careful strategic execution, and transparent and easy to understand stakeholder communications .	Share price improved, interim dividend increased to 8.0 cents per share. Finalist in INFINZ emerging communicator of the year. Entered the S&P NZX50 Index.
Horticulture	**Brand and Intellectual Property development**	✓ **GOOD PROGRESS**
	Continue to develop Mr Apple as a preferred supplier and brand of choice for our customers. Develop Diva®, Dazzle® and other brands for which Mr Apple has proprietary rights. Develop proprietary varieties targeted for Asia and Middle East markets.	Dazzle® launched in December 2016. Further new varieties in the pipeline.
	Volumes	✓ **EXCELLENT PROGRESS**
	Reach 4m TCEs of our own grown apples.	Previous target of 3.5m TCEs by 2020 met 4 years ahead of schedule.
	Sales	✓ **ON TRACK**
	Increase market penetration into China through services company Primary Collaboration New Zealand Limited and strategic partner China Resources Ng Fung.	In-market immersion sessions held in Shanghai (April 2016 and proposed 2017). Online and retail sales growing rapidly.

Division	Target	Status
Storage & Logistics	**Review opportunities within coldstores**	➲ **TO BE PROGRESSED IN 2017**
	Review existing coldstore activities to explore potential for improved financial performance and asset returns.	A number of initiatives underway.
	Update software and broaden service offering	✓ **GOOD PROGRESS**
	Complete rollout of FMCG capable warehouse management software through Polarcold.	Software upgrade project continuing and scheduled to complete in 2017.
	Extend current FMCG business to Auckland and the South Island.	FMCG clients have and are being sourced for Auckland.
	Complete merger of Whakatu Coldstores and Polarcold	✓ **ON TARGET**
	Expand bulk liquid storage and logistics offerings	➲ **VARIOUS OPPORTUNITIES UNDER REVIEW**
Food Ingredients	**Develop new value-add opportunities via long-term and mutually beneficial partnerships**	➲ **A NUMBER OF OPPORTUNITIES UNDER REVIEW**
	Consider organic and acquisition opportunities to increase divisional scale and significance	➲ **A NUMBER OF OPPORTUNITIES UNDER REVIEW**

Group Financials

Jon Mayson

As announced at our annual shareholders meeting (ASM) last year, our Chairman, Jon Mayson, will retire at our ASM in June of this year. Jon commenced as a Director of Polarcold, and thus our Storage & Logistics division, on 15 February 2012, became a Director of Scales Corporation on 1 June 2012 and Chairman on 20 July 2012. Jon is the 8th Chairman of Scales.

Jon's leadership during his years as Chairman has been a great asset to the Group, providing his extensive experience and expertise in a number of areas including leadership, governance and analysis of investment opportunities. He has expertly guided Board discussions and overseen the Group during its most transformative years, where Underlying Group EBITDA has grown from $27.4 million in 2012 to $67.9 million in 2016.

Jon has also directed the Group through a number of significant milestones including its Initial Public Offering in June 2014 and entering the S&P NZX50 in September 2016.

We would like to thank Jon for his significant contribution as both Director and Chairman over the past 5 years.

Tim Goodacre will be appointed 9th Chairman of Scales at the 2017 ASM.

Financial Performance

We are very pleased to present group Underlying EBITDA of $67.9m, 11 per cent ahead of 2015 (restated). This result, which represents a new record for the Group, is due to strong performances from our Horticulture and Food Ingredients divisions in particular. The individual performance of each division is discussed further in the next section.

Income Statement

$'000	2016	2015 (Restated)
Revenue	373,927	301,410
Underlying Cost of Sales	(258,030)	(194,142)
Underlying Gross Margin	**115,897**	**107,268**
Underlying Gross Margin %	31%	36%
Underlying EBITDA	**67,856**	**61,405**
Underlying EBIT	**55,757**	**50,074**
Underlying Net Profit	**38,638**	**34,795**
After tax impact of:		
Non-cash IFRS adjustments	(460)	1,099
Net Profit	**38,178**	**35,894**
Capital employed[6]	271,142	209,468
Return on capital employed[6]	21%	24%

Directors and management use non-GAAP (Underlying) profit measures when discussing financial performance in this document. The Directors and management believe that these measures provide information that is useful to stakeholders along with GAAP measures. For example, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) require us to value our foreign exchange contracts at the end of each year. Changes in the values of these contracts are recognised as a gain or loss in our accounts. However, because we intend to hold our foreign exchange contracts to completion (taking any associated gain or loss on those contracts at the point at which they are closed out), our approach is to focus on profit or loss prior to these adjustments. Furthermore, the non-GAAP profit measures discussed above are also used internally to evaluate performance of our divisions, to establish operational goals, and to allocate resources. They also represent some of the performance measures required by Scales' debt providers.

Non-GAAP profit measures are not prepared in accordance with NZ IFRS and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by Scales in accordance with NZ IFRS.

The table following shows how Underlying EBITDA and Underlying Net Profit reconcile to Net Profit in our Financial Statements (which are prepared in accordance with NZ IFRS). Note that our financial statements are prepared on a fully NZ IFRS compliant basis.

[6] To enable a like-for-like comparison, capital employed and return on capital employed have been adjusted to reverse out impacts of the Longview acquisition. This is due to the timing of the Longview acquisition which did not contribute to earnings during the 2016 year.

Reconciliation of Underlying EBITDA to Net Profit

$'000	2016	2015 (Restated)
Underlying EBITDA	**67,856**	**61,405**
Reconciliation to GAAP information		
- Depreciation	(11,438)	(10,243)
- Amortisation	(661)	(1,088)
- Finance revenue	167	185
- Finance charges	(2,533)	(2,801)
- Taxation	(14,753)	(12,663)
Underlying Net Profit	**38,638**	**34,795**
- Foreign exchange contracts revaluations / hedge ineffectiveness	(1,258)	1,759
- Fair value gain on apple inventory (pursuant to NZ IAS 41)	993	N/A
- Equity settled employee benefits	(270)	(168)
- Taxation	75	(492)
	(460)	1,099
Net Profit as Reported in Financial Statements	**38,178**	**35,894**

Change in accounting policy

The Group has adopted the amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture* which are effective for periods beginning on 1 January 2016. The amendments bring apple trees, which are used to grow produce, into the scope of NZ IAS 16 and out of the scope of NZ IAS 41 so that they are accounted for in the same way as property, plant and equipment. The produce growing on apple trees continues to be accounted for as unharvested agricultural produce under NZ IAS 41.

This amendment was applied to the Group's apple trees. These financial statements have been retrospectively restated to reflect this accounting policy change. On adoption of the amendment, the Group elected to measure its apple trees using the revaluation model.

Consolidation of Fern Ridge

Prior to 2016, Fern Ridge was an associate business of the Scales Group. From an accounting perspective this meant that Scales equity accounted 50 per cent of Net Profit. In January 2016, Scales' share of Fern Ridge was increased to 72.88 per cent. As a result the financial performance of Fern Ridge is consolidated into our group results. Fern Ridge is a high-revenue, low margin business with annual revenues of approximately $35 million in 2016.

Capital Management

Performance against Benchmarks

We monitor the ROCE and EBITDA margin of each division and the group.

ROCE is a measure of how efficiently we are generating a return on our assets. It lies at the heart of how we monitor the performance of the portfolio as well as decisions around capital expenditure. Prior to committing to an investment in assets, we need to be confident that we will generate a return that meets or exceeds our targets. The ROCE targets vary by division, given each division's specific asset and risk profiles, however, as a group we target a long-run combined ROCE of 15 per cent.

There has been a 40 per cent increase in capital employed between 2015 and 2016. This increase is mostly due to the acquisition of Longview (approximately $20.5 million, which was completed in November after the 2016 apple harvest and therefore contributed a small loss in 2016) and revaluations of our land, buildings, and orchard assets (approximately $39.7 million in total). These asset increases noted above are not accompanied by an increase in earnings during 2016. Accordingly, capital employed and ROCE have been adjusted so as to remove the impact of the Longview acquisition. As a result of the increase in our asset base principally relating to asset revaluations, group ROCE decreased to 21 per cent (2015 restated: 24 per cent), still significantly ahead of our long term target of 15 per cent.

We note that sustained success from our business divisions will, in the case of the horticulture and coldstorage businesses specifically, be accompanied by an increase in asset valuations and a subsequent lowering of ROCE percentages.

EBITDA margin is a measure of profitability of each division. Over time we use it to monitor the competitive dynamics and cost control of each business within the Scales portfolio. EBITDA margin targets vary significantly by business. For example, our freight forwarding business is a high-turnover, low-margin business, whilst our asset intensive cold storage businesses tend to operate a higher EBITDA margin. As a group we target a long-run combined EBITDA margin of 13 per cent.

At a group level our 2016 EBITDA margin at 18 per cent easily exceeded our target.

Scales' Net Tangible Assets as at 31 December 2016 were $1.41 per share (31 December 2015 (restated): $1.09 per share).

Scales' earnings per share for the year ended 31 December 2016 was 27.0 cents per share (25.7 cents per share in the year ended 31 December 2015 (restated)).

Capital Management Benchmarks

	2016	2015 (Restated)
ROCE		
Horticulture[7]	28%	34%
Storage & Logistics	11%	13%
Food Ingredients	53%	49%
Group[7]	**21%**	**24%**
Long term Group target	15%	15%
Underlying EBITDA margin[8]		
Horticulture	20%	22%
Storage & Logistics	15%	17%
Food Ingredients	13%	13%
Group	**18%**	**20%**
Target	13%	13%

Financing

Average Net Debt[9] for the year was $43.4 million, $10.9 million above Average Net Debt during 2015 of $32.5 million. This higher debt figure was primarily due to the acquisition of Longview which was financed entirely from cash and debt.

Hedging Strategy

We sell to the world. This means that we have a significant exposure to movements in foreign exchange rates – most specifically in Mr Apple. Our freight forwarding businesses, Scales Logistics and Balance Cargo, and our Food Ingredients division are also impacted by foreign exchange rate movements.

In 2016, Mr Apple made approximately 58 per cent of its apple sales in US dollars, 29 per cent in Euros, 10 per cent in British pounds, and 1 per cent in Canadian dollars[10]. We have a natural hedge covering some of our US dollar exposure as all international shipping is payable in US dollars also. We take cover on the remaining expected net US dollar, Euro, British pound, and Canadian dollar exposures.

We also take out interest rate swaps and forward rate agreements which provide some certainty on interest costs on Scales' term and short-term borrowings.

Scales has a Board approved Treasury Management Policy within which all foreign exchange, interest rate and related activities are conducted. This policy is reviewed biennially.

Under this policy:

- We take foreign exchange cover for up to 48 months using a variety of foreign exchange instruments (including options and forward contracts). Scales maintains a blend of instruments. For the next 12 months, approximately 75 per cent of Mr Apple's expected net foreign exchange exposure is covered.
- We also have interest rate swaps and forward rate agreements covering interest on our long term and short term borrowings.

[7]Due to the timing of the acquisition, Longview has been excluded from the calculation of Horticulture and Group 2016 ROCE.

[8]Excluding share of profit from associate company and joint venture.

[9]Average Net Debt is calculated as the term debt balance plus the average net working capital facility balance (calculated as the average of the net working capital facility balance as at 30 June 2016 and 31 December 2016).

[10]The balance was made in NZD.

Dividend

A final 2015 fully imputed cash dividend of 6.5 cents per share (a gross amount of 9.0 cents per share) was paid on 8 July 2016. Together with an interim dividend of 6.5 cents per share (a gross amount of 9.0 cents per share) and a special dividend of 4.0 cents per share (a gross amount of 5.6 cents per share), which were both paid on 20 January 2016, this brought the annual dividends for 2015 to a total of 17.0 cents per share (a gross amount of 23.6 cents per share).

A fully imputed interim 2016 cash dividend of 8.0 cents per share (a gross amount of 11.1 cents per share) was declared in December 2016 and paid on 18 January 2017. Our expectation is to declare a final fully imputed cash dividend in respect of 2016 in May 2017, for payment in July 2017. As always, any dividend is subject to Board approval. It is standard practice for the Directors to consider all aspects of the Group's performance and financial position prior to declaring any dividend.

Capital Expenditure

Operational capital expenditure was $7.0 million, almost $2.5 million ahead of our 2015 spend.

During 2016 we invested $8.7 million in the future growth of Scales to support our future growth and earnings potential.

Major purchases during 2016 included:

- Purchase of around 4 hectares of land surrounding Mr Apple's Whakatu Packhouse.
- Redevelopment of around 30.5 hectares of Mr Apple's Pakowhai orchard into premium varieties.
- Upgrade of the warehouse management software by Polarcold.
- Purchase of land surrounding strategic coldstore assets in the Hawke's Bay to enable future expansion.

Capital Expenditure

$'000	2016	2015
Operational capital expenditure		
Horticulture	3,290	1,905
Storage & Logistics	3,355	2,367
Food Ingredients	370	220
Other	8	39
Total operational capital expenditure	**7,023**	**4,531**
Growth capital expenditure		
Horticulture	4,975	3,721
Storage & Logistics	3,705	7,557
Food Ingredients	-	-
Total growth capital expenditure	**8,680**	**11,278**
Total capital expenditure	**15,703**	**15,809**

Outlook

The outlook for Scales remains positive. With the acquisition of Longview and the increased investment in Fern Ridge, added to continued strong performances across ongoing businesses, the outlook for 2017 and beyond is positive. We expect to improve the contribution achieved from our Storage & Logistics division, specifically from our coldstores, whilst our Food Ingredients businesses continue to be well regarded in the market places they operate.

We would like to thank all of our management and staff, fellow directors, suppliers and of course our customers. Scales greatly appreciates your collective support and involvement in our 105th year of trading.

Jon Mayson
Chairman

Andy Borland
Managing Director

17 March 2017

SUSTAINABILITY REPORT

As an agribusiness investor we clearly recognise that we have a responsibility to all stakeholders to ensure we have a sustainable business. For us, it is important to know that we operate a work environment where people feel safe and comfortable at work, that we provide opportunities to develop and build a career, that we are looking after our environment, and that we treat suppliers and customers with respect recognising their bespoke needs and requirements.

This year we are producing our inaugural sustainability report. This is the second year we are reporting on sustainability, however we have taken significant steps to improve the depth and breadth of coverage in this year's report.

In this report we will touch on (a) what matters and what is material to our stakeholders (b) what we are already doing to address stakeholder concerns, and (c) where we think we can or need to make improvements to become a better corporate citizen.

Why is Scales reporting on sustainability?

We started our sustainability reporting journey in 2015 and we are seeking to learn, gather feedback and improve through the process. In making sustainability disclosures we are seeking to meet the NZX's proposed draft Corporate Governance Code requirements. We strive to provide stakeholders with robust information so that they may make informed decisions.
In our efforts to achieve this we have been influenced by the internationally-recognised sustainability reporting standard Global Reporting Initiative (GRI). We have used GRI as a high level guide to determine our report topics.

What is included in this report?

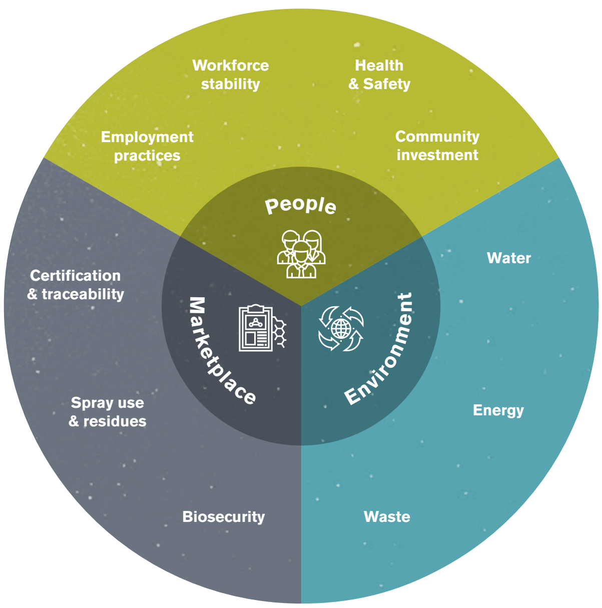
The scope of this sustainability report covers all group companies for the 2016 annual reporting period. However, much of the report focusses on Mr Apple (including the recently acquired Longview operations) and the coldstore businesses as that is where material sustainability impacts occur.

The boundary of this report includes all direct sustainability impacts generated by Scales' group companies. The report does not include indirect impacts generated by suppliers and service providers, but does reference customer and market requirements, which in turn influence the direct operational impacts of Scales.

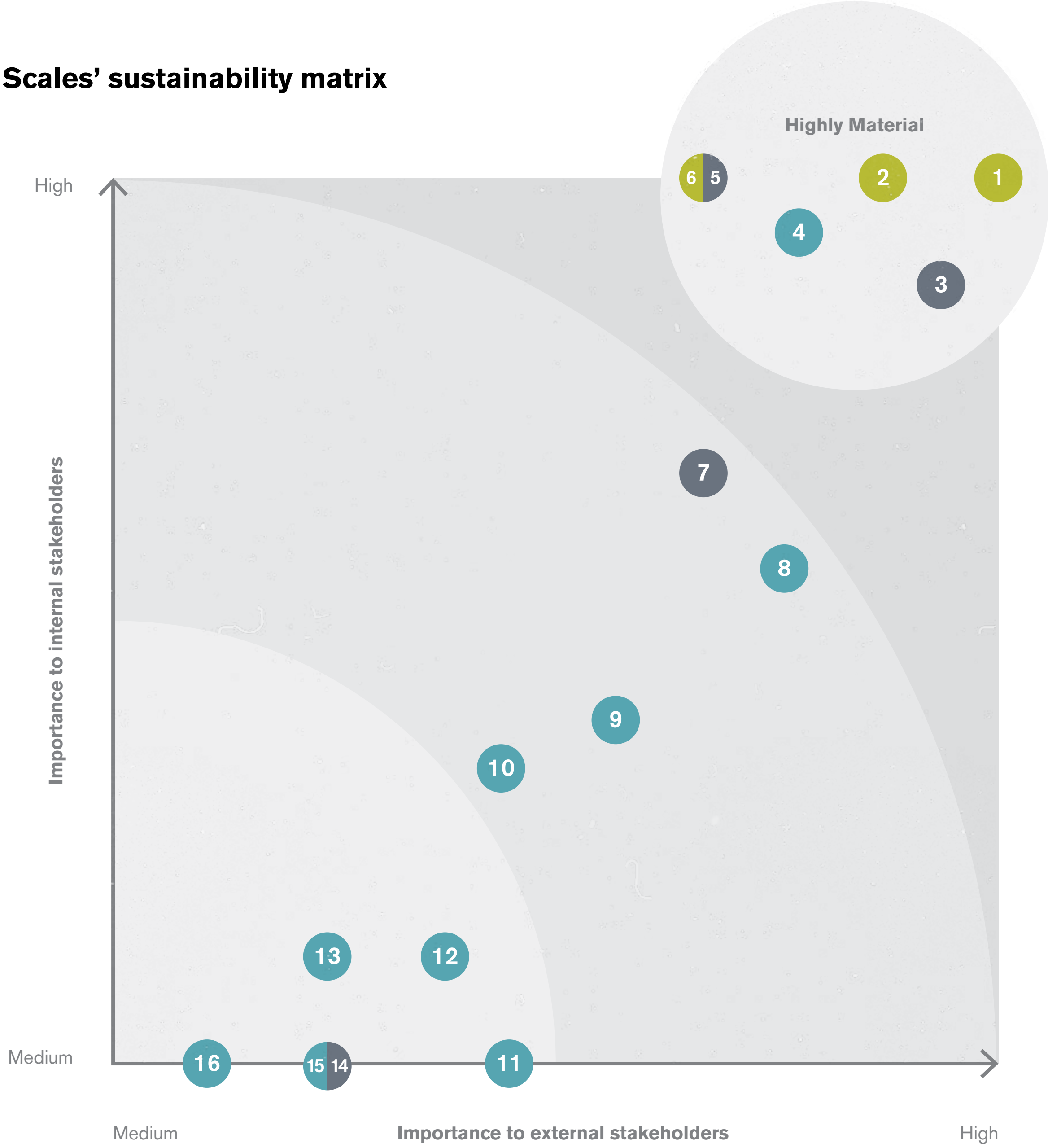
How did we decide what to report on?

In determining what to include in our sustainability report, we have drawn upon the GRI's materiality principles and related guidance. We have identified 16 sustainability topics which we believe reflect key sustainability concerns for Scales. The matrix on the following page presents those topics that have been identified and their relative level of materiality. Some less material topics have not been reported on this year. We have grouped the topics that we will be reporting on under three headings (People, Marketplace, Environment) and we cover each in further detail on the following pages.

Scales' sustainability framework



Scales' sustainability matrix



People

1 Employment
2 Health and safety
6 Workforce stability

Environment

4 Water use
8 Carbon
9 Water quality
10 Energy use
11 Weather and climate
12 Biodiversity
13 Fruit waste
15 Refrigeration
16 Soil health

Marketplace

3 Supplier requirements
5 Spray use and residues
7 Food safety
14 Consumer preferences

Our people

Scales is extremely lucky to have a stable, experienced and hard-working team of people. In return, we are committed to being an employer of choice, developing our people's skills and potential.

Health and Safety

We are uncompromising in our commitment to the health and safety of our workers and the communities in which we operate. Safety is our number one priority and is the responsibility of every Director, manager and team member. Health and safety is a separate and significant part of every Board meeting and we are constantly introducing new initiatives to further improve the safety of our team at work. Positive safety outcomes are achieved through a wide range of management approaches with a focus on training, continuous improvement and staff engagement.

Induction and training

New staff are inducted in all aspects of health and safety when they commence employment. Managers and health and safety representatives receive ongoing internal and external training. External training includes NZQA accredited courses that are operated by external health and safety specialists and training providers.

Safety improvements

The process of identifying and eliminating hazards is core to improving safety. Safety improvements are being made on a daily basis across all parts of Scales' business in an ongoing effort to achieve zero harm at work.

As an example, the use of spot welds to improve traction on ladder steps has led to a reduction in the number of slips and resulting injuries on our orchards.

Staff engagement

Staff are actively engaged and encouraged to participate in health and safety initiatives. The Your Extraordinary ideaS (YES) programme run by Mr Apple is an example of staff engagement leading to the development of safety improvements.

Safety improvements suggested through the YES programme are treated seriously throughout the organisation and have resulted in specific implementations across the Group. For example, we have implemented an initiative to remove potentially hazardous gaps between packing tables and conveyers in the packhouse.

Employment

Scales employs over 600 permanent staff across our 10 operating entities. An additional 1,800 fixed term staff are employed within the Horticulture division for periods of up to 7 months through the apple production cycle. Scales, through Mr Apple, has long-term relationships with a large number of these seasonal workers, resulting in them returning to the Group for several years.

Maintaining a stable workforce and planning for growth is a material issue for the horticulture sector. As one of the largest employers in the region, we recognise that we have a responsibility to train and develop the skill set of the local community. This responsibility extends to creating bespoke pathways to train workers without previous horticulture experience and help find employment opportunities for those who are out of work. To this end, our entities run a number of programmes, which are touched on briefly below. We continue to investigate ways to further improve the employment opportunities they provide:

Apprenticeships

Mr Apple has a four-year apprenticeship programme offering apprentices the opportunity to earn while they learn, studying towards a National Certificate in Horticulture whilst in full-time employment. In 2016, Mr Apple had 12 new apprentices.

Hua Initiative

Mr Apple has partnered with Hawke's Bay Iwi Ngati Kahungungu to actively recruit and develop employment opportunities for whanau.

One of our staff members recruited through this initiative is 19 year old **Te Atawhai Te Tomo**, who joined Clive Orchard in October 2016 after completing the Wairoa Waikaremoana Youth Trust Program designed to introduce candidates into the horticultural field.

Te Atawhai has become a valued member of Mr Apple, working independently in re-development areas, post counts and thinning. Te Atawhai aspires to attain her licence and to be a competent tractor driver.

WINZ partnership

Mr Apple works together with WINZ to provide employment readiness and job opportunities for local unemployed and recently-released prisoners.

SEED Programme

Mr Apple has completed its fifth Year of the Seasonal Employee/Employer Development (SEED) programme and currently has 16 permanent staff recruited through this programme who are on successful career pathways (see our success stories on the following page).

Te Atawhai Te Tomo.

Seeding success

Our SEED programme aims to create successful career pathways for new recruits.

Renee Makea – Renee started at Mr Apple in 2014, working in the packing lanes and on our orchards. She subsequently progressed to the position of Technician for Mr Apple's largest packhouse and most recently has been promoted to a Shift Manager role. With the support of funding from the Ministry of Social Development and in-work support from Mr Apple, Renee has built an excellent career in the horticulture industry.

Renee Makea.

Annmarie Horn – Annmarie started work at Mr Apple in 2013 in a Validation role and also working on our orchards. She progressed to Quality Supervisor and in 2016 Annmarie was promoted to Packhouse Quality Manager. Recently she travelled to Europe and spent a week in Spalding, England, at Univeg, a large distribution centre. In 2015, Annmarie completed a 10-week Dale Carnegie Leadership course and won the highest award for achievement for the class.

Annmarie Horn.

Training

We invest in a wide range of training programmes to upskill and develop our staff. Over 200 staff are in formal training programmes including professional development, National Certificate in Horticulture, driver training, numeracy and literacy.

Community investment

We support a wide range of local community initiatives within our operating entities. These investments include financial, product and staff time contributions. Scales' companies are significant members of the Hawke's Bay community in particular. As a Group we are considering ways to further enchance our contribution to the community.

Seasonal employment

The New Zealand horticulture sector is experiencing significant growth. Undoubtedly this is positive for our staff and the community, but meeting increasing peak seasonal labour requirements is an increasing challenge. Whilst work for New Zealanders and Hawke's Bay residents is our first priority, Mr Apple meets the balance of its workforce requirements through its participation in the New Zealand Government's Recognised Seasonal Employer (RSE) scheme. In 2016, Mr Apple employed 1,040 (2015: 914) RSE workers from 7 Pacific nations, with an average work duration of 27 weeks.

Mr Apple has made significant investments in worker welfare, accommodation, transportation and training to ensure the success of the RSE scheme. Worker training includes leadership development, financial literacy and driver training. RSE workers are paid above minimum wage, at an average of $18.80 per hour compared to the minimum wage and holiday pay of $16.47.

Worker welfare is recognised internationally as a material issue for the horticulture sector and feedback from Scales' stakeholders confirms this. Mr Apple is committed to ensuring RSE workers are well looked after and that their employment opportunities are optimised while in New Zealand. Development initiatives include the identification of future leaders and providing them with training in leadership, supervision and management. Mr Apple ensures that all RSE workers get a minimum of 30 hours work per week and training in budgeting where appropriate.

Marketplace

Meeting Market and Customer Requirements

Market and customer requirements for safe food, and the demand for transparent information about environmental and social impacts of food production methods, are increasing. Our operating entities are meeting these requirements through internationally-recognised certifications, the development of world-class traceability systems and best-practice management approaches.

Certification and auditing

Mr Apple meets a number of certification standards including Global G.A.P, Tesco's Nurture, Waitrose, British Retail Consortium (BRC) and SEDEX certification standards.

These internationally-recognised standards cover a wide range of good agricultural practices including pest and disease management, environmental impact management, resource use, soils management, landscape enhancement, health and safety, and workers' welfare. Certification to these standards is verified though independent third-party external audits.

An extensive internal audit and monitoring programme is continuously conducted by dedicated in-house teams to ensure certifications are maintained and specific market and customer requirements are being met. Within the Scales group of companies a number of MPI and other quality-related certifications are held by operating entities to meet market and customer requirements.

Traceability systems

Our operating entities have developed world-class traceability systems that enable the accurate identification and tracking of products from source to end consumer. One system, the MAX system, is proprietary to Scales having been developed by Mr Apple and a third party software developer.

The traceability systems are useful for product management and are vital in streamlining the process of meeting market and customer audit requirements. As an example, a carton of apples in a UK supermarket can be traced back to an individual bay in a Mr Apple orchard in the Hawke's Bay. Data available from the system includes: how that apple was grown; which sprays were used and when; on what date the apple was picked and its storage and transport history to market.

Spray use and residues

The use of chemical sprays to control pests and diseases and maintain food safety is a market requirement. Mr Apple meets specific spray use and residue requirements for different markets and for individual customers. A comprehensive range of management strategies are used by Mr Apple to minimise spray use and target application for greatest efficacy.

Encouraging natural predators, using pheromone controls and adjusting spray application timing to suit localised conditions are all part of an integrated approach to pest management. Ongoing investments in technology (such as the Billy spray management application and Quantum Mist sprayers) and training are also helping to deliver better spraying techniques and reduced chemical application rates per hectare.

In many cases, the requirements of our customers are significantly stricter than the regulatory frameworks in which our customers operate. For example, one of the major supermarkets in the EU requires that any spray residue found on fruit is 70 per cent lower than the regulatory level set in the EU.

Our environment

Looking after our environment

As a food producer, food storage, and logistics business, we have a strong awareness of our environmental impacts and the need to protect and enhance the natural systems and resources on which it depends. Three key environmental focus areas for us are water conservation, energy efficiency and waste minimisation.

Photo by Trevor Plunkett, Mr Apple

Water conservation

Water use is a material focus for our Horticulture division. All water use on Mr Apple orchards is metered and achieved 100 per cent compliance with the consented caps set by the Regional Council. Extensive soil moisture testing and water-saving irrigation technology is used to optimise water use, delivering water only when and where it's needed.

Our water conservation efforts also extend beyond the Horticulture division with rainwater harvesting at the new Wiri coldstore in Auckland saving the equivalent of approximately 2.5 Olympic-sized swimming pools in water in 2016.

Energy efficiency

Our operating entities use over 70,000 megawatt hours of electricity per year, the majority in the coldstore operations. In line with our energy policy, we are committed to the continuous improvement of the energy performance of each business. This is an essential part of our overall drive to exceed best-practice, improve productivity and enhance competitiveness.

We are committed to reducing energy intensity by 2.5 per cent per annum and we have made significant investments in control, management and monitoring systems for our coldstore businesses. The investment in energy efficiency is yielding positive results with a 25 per cent reduction in one of our largest coldstores (the Whakatu Coldstores E Block in Whakatu, Hawke's Bay) since 2012.

Waste minimisation

Initiatives to minimise and eliminate waste have been implemented throughout our operating entities including recycling, re-use, repair systems and waste avoidance strategies. The use of recycled content in packaging is increasing and Mr Apple orchards are members of the New Zealand AgRecovery programme which focusses on the recovery of products specific to agricultural and horticultural sectors.

DIVISIONAL OVERVIEW

In this section we examine the divisional performance and key drivers of Scales' three trading divisions. As before, we focus on the underlying financial performance of our business divisions, which excludes certain one-off or non-cash IFRS year-end adjustments. Where such adjustments have been made we identify the quantum.

Horticulture

Our Horticulture division primarily comprises:

- Mr Apple, New Zealand's largest fully vertically integrated apple business, based in Hawke's Bay
- a 73 per cent stake in Fern Ridge, a fresh produce exporter in Hawke's Bay
- Longview, a standalone Hawke's Bay grower, packer and marketer of apples, acquired in November 2016.

	Orchards/ Leases	Post-Harvest (Packing/ Coolstorage)	Marketing
Mr Apple	1,045ha planted orchard yielding 3,550k TCEs	~4,300k TCEs packed and stored Includes Independent Growers	~4,700k TCEs marketed globally Includes Independent Growers
Fern Ridge			~700k TCEs marketed globally Includes Independent Growers
Longview + acquired orchards	~85 planted orchard yielding ~230k TCEs	~530k TCEs packed and stored Includes Independent Growers	~530k TCEs marketed globally
	Total grown volume ~3.8m TCEs		**Total export volume ~5.9m TCEs**

Independent Growers

(Hawke's Bay & Nelson):

- Mr Apple: ~1,100k TCEs (about 60 per cent in Hawke's Bay, 40 per cent in Nelson).
- Fern Ridge: ~700k TCEs (all major growing regions).
- Longview: ~300k TCEs (all from the Hawke's Bay). Longview's previous shareholders (representing >50 per cent of this volume) have committed to supply for a 1-3 year period as part of the transaction.

With the addition of Longview and Fern Ridge, Scales' Horticulture division is expected to handle more than 25 per cent of New Zealand's total apple crop.

We are pleased to present a very strong performance from our Horticulture division. During 2016:

The division achieved an Underlying EBITDA of $45.3 million, 13 per cent above last year.

Mr Apple sold 4.77 million TCEs to more than 150 customers in approximately 40 countries.

Including Fern Ridge, the Horticulture division[11] sold nearly 5.5 million TCEs.

In this section we provide additional detail and insight into our Horticulture division, the largest division within the Scales group. During 2016 we launched our new marketing campaign, which focuses on a 5-point promise - Pure Place, Pure Expertise, Pure Control, Pure Safety, Pure Delight. Elements of the market campaign are captured in the following pages. The 5-point promise reflects the 5-point star that can be seen if an apple is cut perpendicular to the core.

Orchard Redevelopment

Orchard redevelopment has been a major strategy for the division over the last 9 years, with a significant investment being made. This investment has seen large portions of our orchards, and orchards that we have acquired, being redeveloped into premium varieties targeted at Asian and Middle Eastern consumers.

Large areas of orchard that were redeveloped between 2011 and 2012 especially are now reaching full maturity.

We continue to review opportunities for redevelopment. Every variety in every orchard is measured from a profitability perspective. We review yield (which is a function of orchard management, tree spacing, and the suitability of growing conditions for the variety being grown), costs, and profitability on a granular level.

Low or under-performing orchards will be marked for redevelopment. New orchard development will be focused on new and exciting varieties for which Mr Apple has proprietary rights.

[11] *The acquisition of Longview was made after the 2016 apple season had ended.*

Apple Varieties and Brands

Mr Apple is all about the apple. As a result, it has a large range of traditional and new premium varieties, with different characteristics and quality grades to meet customer requirements and price points.

The introduction of new apple varieties is extremely important to the Horticulture division. We have partnered with two other large New Zealand apple growers to form Fruitcraft® to secure proprietary rights to new apple varieties and pool resources to market those new varieties. Through Fruitcraft® we have developed four new apple brands:

- **Dazzle®**. Launched in December 2016, Dazzle® is a big, highly coloured and very sweet apple, targeted towards the Asian market. It was developed by Prevar Limited, with the worldwide master licensing rights for production and marketing granted to Fruitcraft®.
- The very best of the best Fuji apples can be marketed under the **Diva®** brand. Diva® is targeted at consumers in Asia and the Middle East where it commands a premium price.
- An early season pink to bright red apple with a sweet honey flavour.
- A highly productive, large, full-red apple that also matures early in the season.

Unlike Dazzle®, the latter two brands have yet to have their full marketing launches. These brands must be marketed through either Mr Apple or one of our partner apple growers.

Markets

In 2016 we sold apples to more than 150 customers in approximately 40 countries. Sales to Asia and the Middle East accounted for 53 per cent of all sales in 2016.

The increased significance of Asia and the Middle East is considerable. National data from 2005 shows that only 14 per cent of New Zealand's apple exports went to Asia[12]. Increased sales to Asia has come at the expense of sales to the UK and Europe. Where these markets once accounted for 72 per cent of New Zealand exports, Mr Apple sells only 40 per cent of its fruit to these markets today.

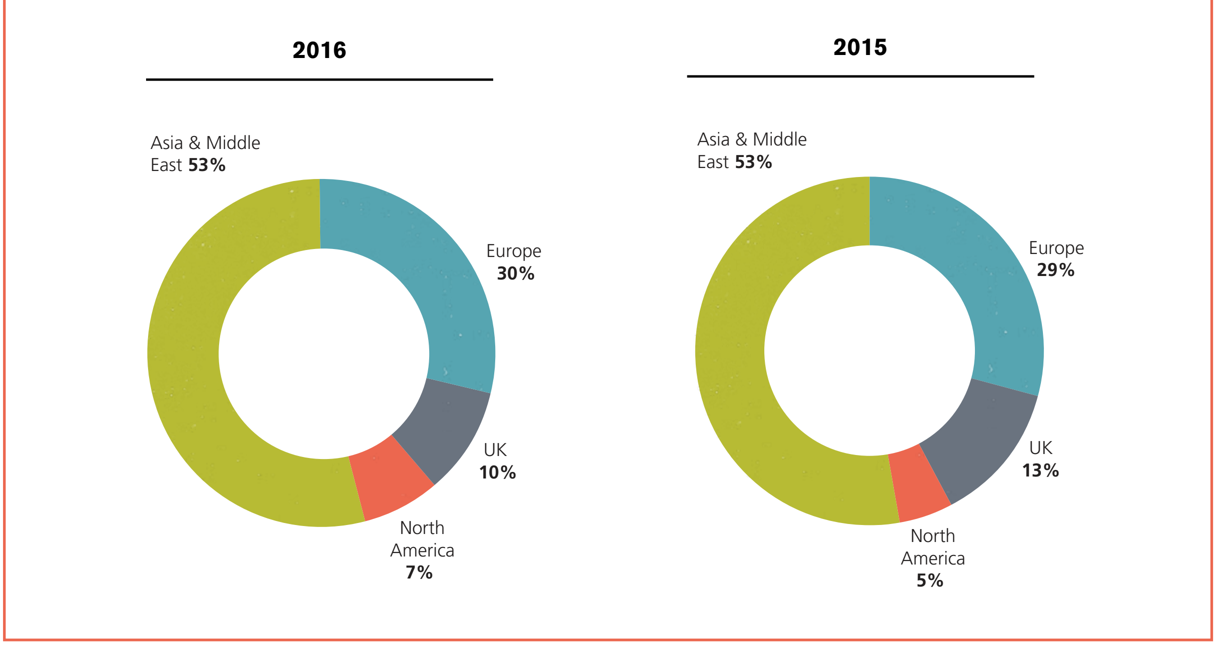
The increase in sales to Asia and the Middle East reflects changes in the trading terms that we have with these countries (for example various free trade agreements entered into by our respective governments), geopolitical developments, and conscious orchard development focused on varieties that appeal to consumers in those markets.

Asia and the Middle East are expected to continue to be key markets for us and we will continue to focus innovation and development towards opportunities in the region. This reflects:

- The large population in the region.
- A proven propensity to consume apples (China consumers are one of, if not, the highest per capita consumers of apples in the world).
- Local apple production is limited either due to alternative land uses or a climate that is not suitable for growing apples.
- Market proximity enabling faster shipping and lower distribution costs.
- A diversity of markets and customers within each market enabling adequate returns.

As our orchard continues to mature, and as the Longview orchard is integrated into our business, we expect to continue to increase our sales to this region.

Mr Apple - Sales by Region (TCEs)



[12]*Source: Coriolis Research, NZ Pipfruit Overview, 2006.*

Horticulture - To China and Beyond

China has been identified as a key export market for Mr Apple going forward:

- There is currently no dominant apple brand in the China market, providing an opportunity for Mr Apple to take a leadership role.
- Technology has opened up new routes to market for the sale of produce in China. In addition to traditional wholesale sales, technology and the internet enable us to sell directly to retailers as well as selling online.

We have undertaken significant field research to understand the buying and eating habits of consumers in the China market. This research has been instrumental in informing how we should be marketing and branding our apples to optimise uptake.

We have also been evolving the way we market ourselves. Our initial marketing focus was a business-to-business focus to maximise our appeal to wholesalers and retailers. Key points of difference relate to increasing foot traffic and sales volumes by stocking our apples. The next step in our branding development is to appeal directly to consumers. This has led to the evolved branding line "every bite … pure delight" with a focus on the quality and traceability of New Zealand apples that are ready to eat straight from the tree.

Between our apple varieties, market focus, and shareholder partner we are hoping to develop traction in the China market over the years to come.

Summary

2016 was an exciting year in the Horticulture division's development. Not only did we meet a production target that we had set for 2020, but the business was notably expanded both through our increased share in Fern Ridge as well as the acquisition of Longview near the end of the year. The Longview acquisition and investments we have been making in branding reinforce our position as a serious and credible global apple exporter.

Financial Performance and Key Operating Statistics

Summary Performance

The table below shows the financial performance of our Horticulture division for 2016 and 2015 (restated):

Horticulture

$'000	2016	2015 (Restated)
Revenue	**230,077**	**178,126**
Underlying Cost of Sales	(162,684)	(113,507)
Underlying Gross Margin	**67,393**	**64,619**
Underlying Gross Margin %	29%	36%
Other income, administration and operating expenses	(22,054)	(25,441)
Underlying Mr Apple EBITDA	**43,636**	**39,178**
Underlying Fern Ridge EBITDA	**2,114**	**-**
Underlying Longview EBITDA	**(411)**	**-**
Share of Fern Ridge net profit	-	814
Underlying Horticulture EBITDA	**45,339**	**39,992**
Depreciation and amortisation	(6,228)	(5,791)
Underlying Horticulture EBIT	**39,111**	**34,201**
IFRS impacts	(81)	1,632
Horticulture EBITDA	**45,258**	**41,624**
Horticulture EBIT	**39,030**	**35,833**
Capital employed	143,380	100,221
Return on capital employed[13]	28%	34%

NB. The table above includes 100 per cent of the EBITDA contribution from Fern Ridge. Approximately 27 per cent of Fern Ridge is owned by minority shareholders. We record a minority interest of $0.4 million in our group results reflecting their share of tax paid profit from Fern Ridge.

Our Horticulture division delivered another strong performance during 2016. Revenue was 29 per cent ahead of 2015, reflecting a larger crop and the consolidation of Fern Ridge revenues (approximately $35 million), whilst the gross margin percentage was down primarily due to the consolidation of Fern Ridge's low margin activities.

As a result of our increased shareholding, as of January 2016 Fern Ridge became a subsidiary of the group and rather than equity accounting for 50 per cent of net profit after tax, 100 per cent of Fern Ridge's revenues and costs are consolidated into the group with a minority interest deducted.

Both sales volumes and average prices were above 2015 levels and this, together with efficiencies in our packhouse, resulted in an Underlying EBITDA that was 13 per cent ahead of 2015. This includes:

- An 11 per cent increase in Underlying EBITDA from Mr Apple.
- An EBITDA of $2.1 million from Fern Ridge, which represents another successful year from that operation.
- A small loss from Longview due to the timing of our acquisition (this loss relates to certain preparatory costs associated with readying the business for the upcoming 2017 harvest). Longview's results will be consolidated within Mr Apple during 2017.

Non-cash IFRS adjustments, before tax, in 2016 relate to revaluation of foreign exchange contracts and fair value gains on unharvested produce (mostly relating to the initial application of the new accounting policy outlined above). We note that the two impacts largely offset one another to create a net impact of -$0.1 million.

Non-cash IFRS adjustments of $1.6 million in 2015 (restated) relate to revaluation of foreign exchange contracts.

Note that gains and losses on foreign exchange contracts closed out during the year are a normal part of our business and are included in the calculation of Underlying EBITDA.

[13]Due to the timing of the acquisition, Longview has been excluded from the calculation of 2016 Horticulture ROCE.

The following tables highlight various Key Operating Statistics that we monitor and report against.

Orchard Statistics

		2016	2015	2014	2013	2012	2011	2010
Orchard								
Total planted orchard (at time of harvest)*	Ha.	1,042	1,052	1,037	1,028	852	803	802
Fully mature equivalent planted orchard	Ha.	922	902	871	858	716	703	684
Apples picked (Mr Apple orchards)	TCE 000s	4,360	4,433	3,668	3,890	2,921	3,168	2,701
Apples packed (Mr Apple + external growers (Hawke's Bay))	TCE 000s	4,150	3,809	3,327	3,419	2,786	2,721	2,431
Exported volume								
Mr Apple	TCE 000s	3,546	3,155	2,752	2,833	2,144	2,001	1,868
External growers	TCE 000s	1,187	1,019	1,218	1,340	1,500	1,682	1,429
Total	**TCE 000s**	**4,733**	**4,174**	**3,970**	**4,173**	**3,644**	**3,683**	**3,297**
Mr Apple 'packout' %	%	81%	71%	75%	73%	73%	63%	69%
Total NZ production	TCE 000s	19,346	18,360	17,259	17,776	15,836	16,904	14,749
Mr Apple own grown volume share of NZ production	%	18.3%	17.2%	15.9%	15.9%	13.5%	11.8%	12.7%

**Planted orchard at the end of the year, including Longview orchards and orchards acquired through the Longview transaction, was 1,144 hectares.*

More than half a billion apples were picked this year from over 1,042 hectares of Mr Apple's planted apple orchard. This equates to a gross production of 4.36 million TCEs (on average there were 116 apples in a TCE) from which 3.55 million TCEs were exported. Production from our owned and leased orchards accounted for 18.3 per cent of the national crop, up from 17.2 per cent in 2015.

Pure Control

Consistency and traceability is key to our operations.

Volumes and Prices

The table below shows volumes and prices (on a NZD FOB basis) for 2016 and 2015:

Varietal Performance - Mr Apple Volumes

Volumes by Variety (TCE 000s)	2016	2015
Premium Varieties		
NZ Queen	343	214
Pink Lady	301	282
Red Sports (Fuji and Royal Gala)	866	831
Other	147	127
Total	**1,657**	**1,454**
Growth	14%	40%
% premium	47%	46%
Traditional Varieties		
Braeburn	735	705
Royal Gala	516	475
Other	638	521
Total	**1,889**	**1,701**
Growth	11%	(1%)
Total Mr Apple owned and leased orchards	**3,546**	**3,155**
Growth	12%	15%
Prices by Variety (NZD / TCE (FOB))		
Weighted average price for premium varieties	37.4	37.8
Weighted average price for traditional varieties	29.3	28.0
Total weighted average price	33.1	32.5

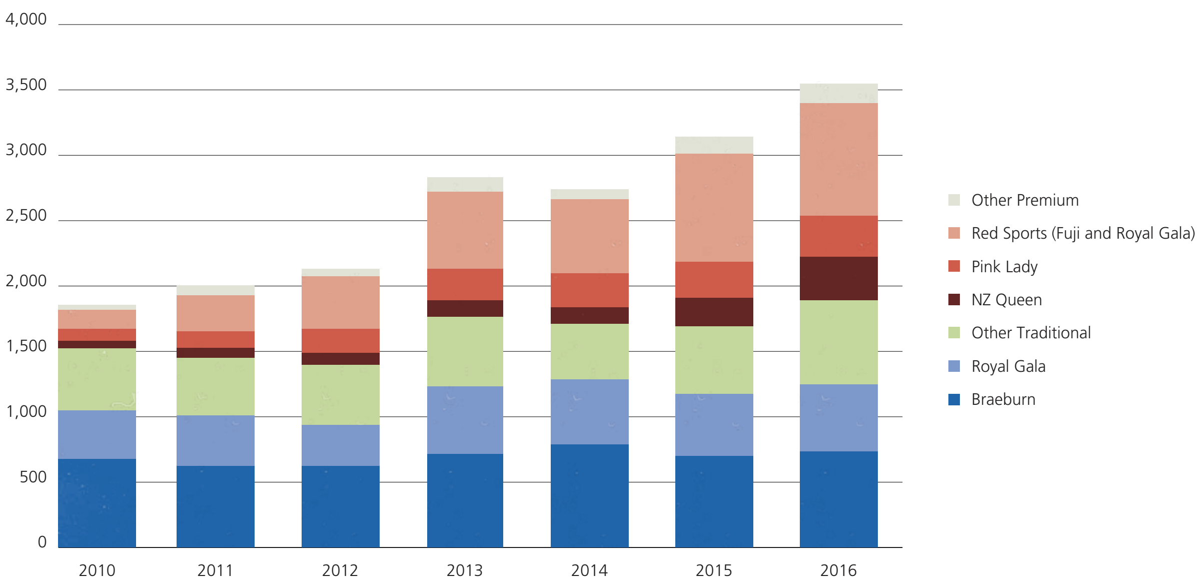
Volumes and Prices (continued)

Premium varieties

During 2016 we exported 1.66 million TCEs of premium fruit, an increase of 14 per cent, as we benefited from the maturing of recently developed orchards together with an investment in reflective foil to improve apple colour.

The weighted average price achieved for our premium apples of $37.40 continues to be a solid result for our premium apples which are now nearly accounting for 50 per cent of our apple volume. A decrease on the weighted average 2015 price is explained by changes in varietal and market mix, movements in exchanges rates, changes in the in-market costs to sell, and the clearing price for apples.

Volumes by Variety (TCE 000s)



Traditional varieties

During 2016 we achieved an 11 per cent increase in the export of traditional varieties, from 1.70 million TCEs to 1.89 million TCEs. This volume includes a large increase in higher value traditional varieties (Fuji and Jazz) in turn driving an increase in the weighted average selling price for traditional apples.

Exchange Rates

The table below summarises weighted average exchange rates for 2016 and 2015.

All rates were generally in line with 2015 reflecting our hedged position and general rate movements. Foreign exchange exposure continues to be managed, with all efforts made to lock in favourable movements in rates and thus minimise the impact of sudden changes on a year to year basis.

	2016	2015
NZD:USD	0.70	0.73
NZD:EUR	0.60	0.60
NZD:GBP	0.47	0.48
NZD:CAD	0.86	0.86

2017 Outlook

The team at Mr Apple is working hard to ensure that the brand is given the prominence that it deserves, particularly in the Asian and Middle Eastern markets. And the addition of Longview to the Scales portfolio provides further exciting opportunities for the company in 2017.

Key highlights for 2017:

Gross production is expected to be higher than 2016 with the addition of Longview volumes and ongoing orchard maturity. However we are assuming that packout rates return to longer term averages which will result in an overall export volume that is in line with 2016 volumes.

Marketing and branding effort will be continued in China and other Asian countries, in order to capitalise on the opportunities those markets bring.

Foreign exchange rates have moved against us. Whilst we have some level of protection from exchange rate contracts taken out in previous periods, after several years of positive exchange rate movements, at current levels the rates will be a headwind for the business post 2017.

Storage & Logistics

Our Storage & Logistics division provides an end-to-end solution for our customers' perishable produce. The division comprises:

Polarcold and Waikato Coldstores - specialists in controlled temperature storage and warehousing, with facilities in Auckland, Waikato, Hawke's Bay, Timaru, Christchurch and Dunedin. Our coldstore businesses have total temperature controlled storage capacity of over 780,000m³, making us the largest independent providers of temperature controlled storage in New Zealand[14].

Scales Logistics – leaders in ocean freight services to exporters and importers of perishable products including fish, fruit and vegetables. With offices in Christchurch, Tauranga and the Hawke's Bay, Scales Logistics specialises in providing tailored international freight services and all land-side services for import and export transportation.

Balance Cargo – provides air freight services, including a purpose built chiller and warehousing facilities. Balance Cargo was formed in 2012 as part of Scales Logistics and is based in Christchurch.

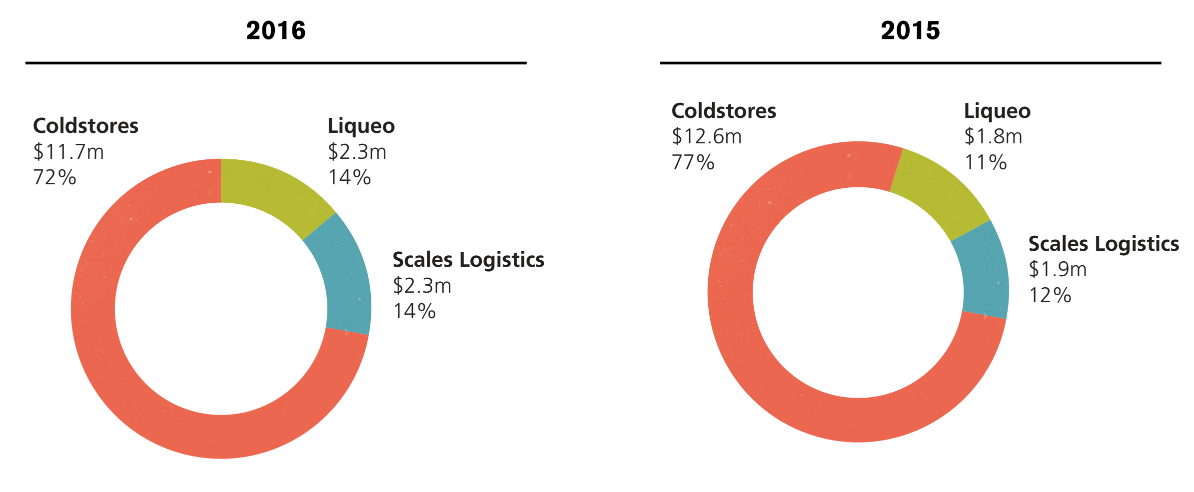
Liqueo Bulk Storage - operates bulk liquid storage terminals with a total capacity of approximately 20,300 tonnes for the storage of tallow, edible and non-edible oils, liquid stock foods and liquid waste products. It has direct ship to shore loading / unloading capability at the Ports of Timaru and Napier.

The range of services provided by the Storage & Logistics division gives our customers end-to-end confidence that their product will arrive fresh, on time, and complying with all relevant import rules and regulations.

Our Storage & Logistics division is characterised by extremely high barriers to entry. Whilst we will experience some movement from year to year due to the timing of the various primary sector production seasons (concentrated around the New Zealand summer), and the average duration goods remain in store, over an extended period this division has delivered consistent earnings. During 2016 our coldstore activities were impacted by higher turnaround cycles, a slow start to the production season at the end of the year, and the exit of some customers. As mentioned, we are conducting a review of our activities to understand if any changes to our activities are required. As a whole, the profitability of the Storage & Logistics division shows strong consistency.

As shown in the chart below, the storage components of the business (being the coldstorage and bulk liquid storage business) collectively make up 86 per cent of the divisional EBITDA:

Divisional Components of EBITDA ($ millions)



[14] *Whakatu Coldstores managed a facility in Wellington under contract during 2016. Damage caused by the Wellington earthquake in November 2016 has caused this facility to close in 2017.*

Divisional Developments

During 2016, the Storage & Logistics division obtained the benefit of a full year of trading from a number of initiatives or acquisitions undertaken in 2015:

- The Auckland coldstore, which opened in November 2015. We are experiencing strong demand from FMCG customers in Auckland and anticipate a 'mature' contribution from this store in 2017.
- Liqueo obtained the benefit of additional revenues and increased space from the upgrade of the Timaru facility, the 20 year contract for the storage of edible oils and the acquisition of the Ahuriri (Napier) bulk liquid processing operation (August 2015). These factors contributed to a meaningful uplift in contribution from Liqueo.
- The division continued the roll out of its highly successful coldstore software system. This software upgrade is expected to be completed in 2017 and will enable the entire group to provide storage solutions to FMCG customers.
- Scales Logistics continued its journey of strong organic growth. TEUs shipped and airfreight tonnes handled were both up by 17 per cent on 2015 levels resulting in a record contribution from this operation. This reflects increased trade from captive customers (Mr Apple and Meateor), good apple volumes in 2016, and the acquisition of new customers.

Financial Performance

The table below outlines Key Performance Indicators and the summarised financial performance for the Storage & Logistics division:

Storage & Logistics

		2016	2015
Key Operational Metrics			
Polarcold and Whakatu Coldstores			
Total available refrigerated coldstore space (at end of year)	m3 000s	780.4	721.6
Liqueo			
Installed capacity of all tanks	MT	20,308	22,500
Scales Logistics			
TEUs shipped	TEUs	24,713	21,125
Airfreight tonnes managed	MT	3,306	2,832
Profitability ($'000)			
Revenue		108,383	95,622
Cost of sales		(70,221)	(61,541)
Gross Margin		**38,162**	**34,081**
Gross Margin %		35%	36%
Administration, operating expenses and other gains and losses		(21,962)	(17,787)
Underlying EBITDA			
Coldstores		11,660	12,584
Liqueo		2,283	1,761
Scales Logistics		2,257	1,931
Underlying Storage & Logistics EBITDA		**16,200**	**16,276**
Depreciation and amortisation		(5,330)	(4,993)
Underlying Storage & Logistics EBIT		**10,870**	**11,283**
IFRS foreign exchange hedge revaluations		(18)	18
Storage & Logistics EBITDA		**16,182**	**16,294**
Storage & Logistics EBIT		**10,852**	**11,301**
Capital employed		98,105	83,809
Return on capital employed		11%	13%

Storage & Logistics (continued)

In aggregate, the division delivered $16.2m in Underlying EBITDA, 0.5 per cent below 2015. Both Liqueo and Scales Logistics delivered solid growth in EBITDA whilst the contribution from our Coldstore operations was lower than anticipated reflecting external factors described above. In aggregate the group delivered another highly consistent outcome building on the strong storage and logistics platform that we have created.

2017 Outlook

The Storage & Logistics division is well positioned. We expect that the 2017 result will improve upon 2016 as the performance from Coldstores returns to longer run levels.

Food Ingredients

Our Food Ingredients division converts agricultural by-products into valuable food commodities. It comprises two businesses that complement Scales' other businesses:

Meateor – a processor and marketer of pet food ingredients for the global pet food industry. It operates processing plants in Whakatu and Dunedin with a combined processing capacity of more than 30,000 metric tonnes a year.

Profruit – a 50 per cent owned manufacturer of high quality apple, kiwifruit and pear juice concentrates, located in Hawke's Bay.

Divisional Developments

Meateor provides ingredients used in the increasingly lucrative petfood industry, an industry that was estimated to be worth ~US$75 billion in 2016, an increase of 4.8 per cent over 2015[15]. During 2016, we continued to build on opportunities in alternative proteins (i.e. meat other than New Zealand lamb), including the ongoing development of our Australian partnership and extended protein options from New Zealand suppliers.

Profruit sells its juice concentrate to customers in New Zealand, Australia, USA and a growing number of Asian countries. Profruit extracts a premium for its juice concentrate due to being 100 per cent New Zealand made and to very high quality specifications.

[15] *Petfoodindustry.com, 'Global pet food sales update: ending 2016 on a high note' (3 January 2017).*

Financial Performance

This division continued its excellent growth curve by producing an Underlying EBITDA of $9.2 million, 22 per cent ahead of 2015:

Food Ingredients

	2016	2015
Key Operational Metrics		
Meateor - Sales volumes (MT)	22,971	20,220
Profruit - Sales volumes (thousands of litres)	5,712	6,117
Profitability ($'000)		
Meateor revenue	58,038	48,570
Meateor cost of sales	(47,766)	(39,984)
Gross Margin	**10,272**	**8,586**
Gross Margin %	18%	18%
Administration, operating expenses and other gains and losses	(2,702)	(2,486)
Underlying Meateor EBITDA	**7,570**	**6,099**
Share of Profruit net profit	1,612	1,454
Underlying Food Ingredients EBITDA	**9,182**	**7,554**
Depreciation and amortisation	(503)	(499)
Underlying Food Ingredients EBIT	**8,679**	**7,054**
IFRS foreign exchange hedge revaluations	(166)	109
Food Ingredients EBITDA	**9,016**	**7,663**
Food Ingredients EBIT	**8,513**	**7,163**
Capital employed	16,525	14,391
Return on capital employed	53%	49%

Other highlights of this result include:

- Meateor delivered an Underlying EBITDA that was 24 per cent higher than 2015 reflecting increased volumes and scale efficiencies:
  - Sales volumes (nearly 23,000 MT) represents a new record for the business, an indication that the team is successfully executing on their strategy to diversify protein sources.
  - The increased volume was largely handled by the same overhead and infrastructure as we had in place during 2015, resulting in efficiencies.
- Our share of earnings from juice concentrate manufacturer, Profruit, was 11 per cent ahead of 2015.
  - Profruit processed 47,481 MT of apple and kiwifruit for the 2016 year. Considering the later start to the season (processing started on 21 March, more than two weeks later than normal) and a higher proportion of kiwifruit (which is slower to process) the 2016 season was an outstanding processing season for Profruit.
  - Total sale volumes of 5.7 million litres is a strong result with higher levels of kiwifruit volumes sold and processed making up for lower apple volumes reflecting the favourable apple growing conditions in 2016.

2017 Outlook

Once again our Food Ingredients division produced an excellent result, setting the bar even higher for future years.

We continue to review ways that we can offer our customers a competitive edge through innovation and we are exploring a number of opportunities to continue the growth of this division in the future.

Leadership Profiles

Board of Directors (as at 17 March 2017)

Jon Mayson, Non-Executive Independent Chairman

Jon was elected to the Board as Chairman in 2012, having previously been appointed Chairman of Scales' Storage & Logistics division. Jon was the CEO of the Port of Tauranga from 1997 to 2005 and oversaw the Port's expansion to become New Zealand's largest export port. He is also Chairman of Ziwipeak Limited, Martin Aircraft Company Limited and Titanium Technologies New Zealand, and was previously Chairman of New Zealand Trade and Enterprise. Jon is also a Director of Ports of Auckland Limited, Te Arawa Group Holdings Limited and Chiefs Rugby Club GP Limited. He was made a Companion of the New Zealand Order of Merit (CNZM) in 2006 for his services to the shipping industry and export. Jon is a member of Scales' Nominations and Remuneration Committee.

Andy Borland, Executive Director

Andy joined Scales in 2007 and became Managing Director in 2011. Prior to joining Scales he had a 20 year career in banking, with his final role being Head of Corporate at Westpac New Zealand. Andy has overall responsibility for the strategic direction and day-to-day management of Scales. In addition to his directorships of the Group, Andy is currently a Chairman of Akaroa Salmon Limited, Primary Collaboration New Zealand Limited and Primary Collaboration New Zealand (Shanghai) Co. Limited, and is a Director of apple and pear industry body Pipfruit New Zealand Incorporated, George H Investments Limited, Rabobank New Zealand Limited, Rabobank Australia Limited and Rabo Australia Limited. Andy also has an involvement with Central Otago deer and beef cattle breeding and fattening farming company Loganbrae Limited.

Tim Goodacre, Non-Executive Independent Deputy Chairman

Tim was elected to the Board in 2014, having been appointed Chairman of Scales' Horticulture division in 2012. He has been involved in agribusiness for nearly forty years and was CEO of Zespri International from 2003 to 2007. Tim is currently: Chairman of The Nutritious Kiwifruit Company Limited, which is a consortium of New Zealand kiwi fruit suppliers selling under a new single brand based around nutrition and health on the Australian market; Director of Prevar Limited, an Australian and New Zealand joint venture apple and pear industry company, supporting the development and commercialisation of new apple and pear varieties; Director of Nagambie Healthcare, a community hospital and aged care facility, based in regional Victoria, Australia; and Director of Featherston Resources Limited. Tim is a member of Scales' Nominations and Remuneration Committee.

Nick Harris, Non-Executive Independent Director

Nick was elected to the Board in 2014, having been appointed a Director of both Scales' Storage & Logistics division and Meateor in 2012. Nick was previously the Managing Director, and was one of the founding shareholders of Hellers Limited, New Zealand's largest bacon, ham and small goods company. Nick is a shareholder and Director of several private companies. He also chairs Enterprise North Canterbury Trust and is Deputy Chairman of the Canterbury Hockey Association. Nick is a member of Scales' Audit and Risk Management Committee.

Mark Hutton, Non-Executive Independent Director

Mark was elected to the Board in 2011. He is a founding partner of Direct Capital. Mark has a background in private equity, specialising in portfolio management with a focus on strategy, growth and capital funding. Mark is currently a Director of a number of Direct Capital entities and portfolio companies including George H Investments Limited and Hiway Group Limited. Mark is also a Director of dual listed (NZX and ASX), New Zealand King Salmon Investments Limited. Mark is Chairman of Scales' Nominations and Remuneration Committee and is a member of Scales' Audit and Risk Management Committee.

Alan Isaac, Non-Executive Independent Director

Alan was elected to the Board in 2014. Alan was the President of the International Cricket Council until June 2014 and is currently Chairman of McGrathNicol and Partners NZ, a Director of Opus International Consultants Limited, AKA Investments Limited, Murray Capital General Partner Limited, New Zealand Vault Limited, Rakaia Investments Limited, Fliway Group Limited, Oceania Healthcare (NZ) Limited and Skellerup Holdings Limited. In addition, he is the Chairman of or advisor to a number of independent committees. Alan has an extensive background in the accounting and finance field and is a former National Chairman of KPMG. He was made a Companion of the New Zealand Order of Merit (CNZM) in 2013 for services to cricket and business. Alan is Chairman of Scales' Audit and Risk Management Committee.

Weiyong Wang, Non-Executive Director

Mr Wang was appointed to the Board in June 2016. He is the CEO, and a Director, of China Resources Ng Fung Limited and its holding company, China Resources Enterprise, Limited. Mr Wang joined the China Resources National Corporation in 1988, and holds a Bachelor of Science degree and a Bachelor's degree in Management Science from the University of Science and Technology of China, as well as a Master's degree in Engineering from Tsinghua University. He has extensive experience in strategic planning and corporate management.

Leadership Profiles (continued)

Management Profiles

Andy Borland, Managing Director

Andy joined Scales in 2007 and became Managing Director in 2011. Andy's full biography is set out above.

Steve Kennelly, Chief Financial Officer

Steve has been with Scales since 1993 in a variety of accounting and financial roles. As CFO, Steve is responsible for finance, funding, legal, company secretarial and information technology. Steve is a member of Chartered Accountants Australia and New Zealand.

Andrew van Workum, CEO Mr Apple

Andrew has worked in the apple industry for over 30 years. He joined Mr Apple at its inception in 2001 and prior to that was General Manager of Mr Apple's predecessor, Grocorp Pacific Limited, where he worked for 16 years. He has extensive experience in the production aspects of the apple industry, and was previously a Director of Pipfruit New Zealand.

Stephen Foote, CEO Whakatu Coldstores and Polarcold

Stephen has been with the Whakatu Coldstores' group of companies in various management roles for 23 years. Prior to joining Whakatu Coldstores, Stephen worked for Dominion Breweries and had interests in orcharding in Hawke's Bay.

John Sainsbury, CEO Meateor

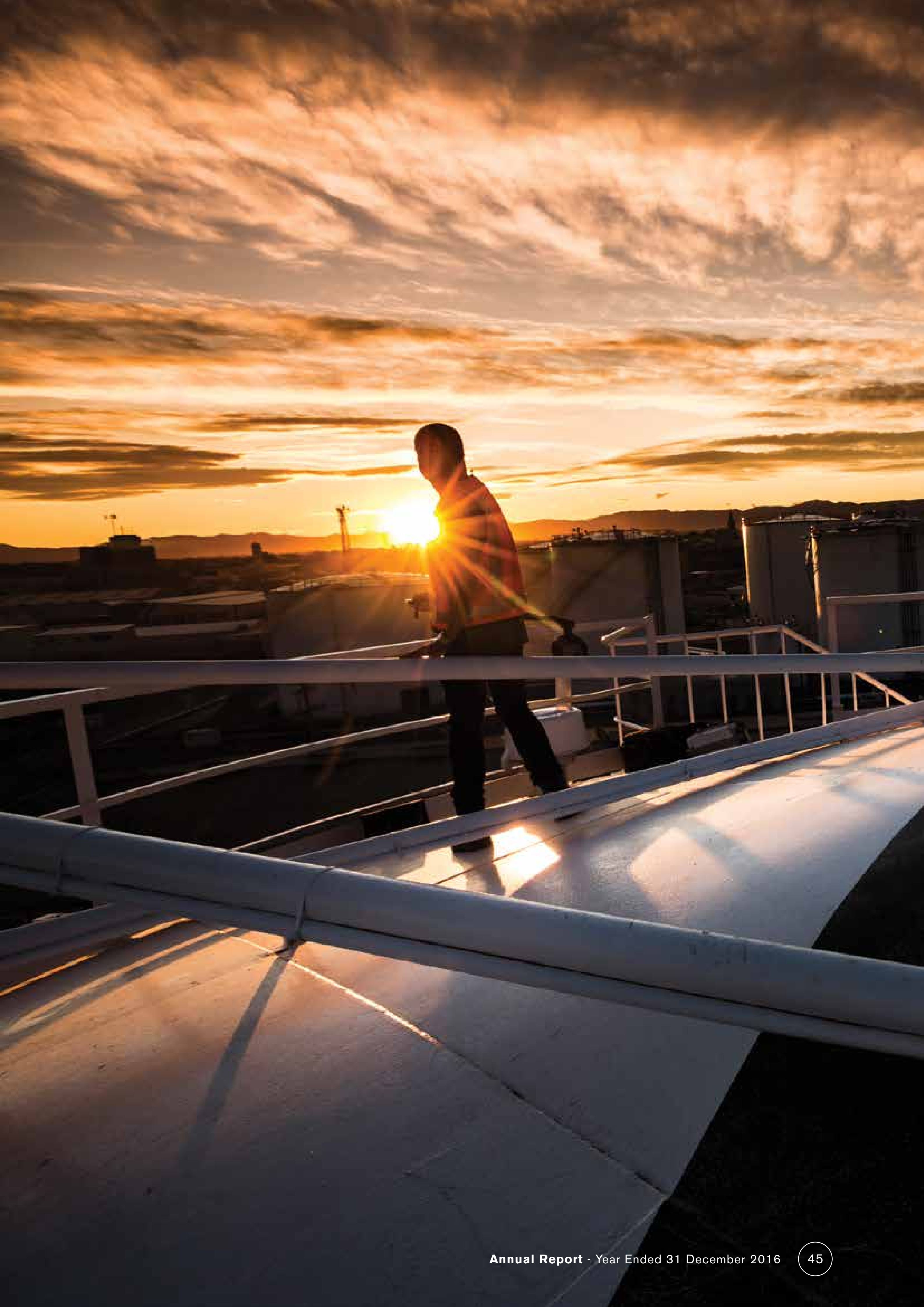
John has been with Meateor in various management roles for the last 16 years. Prior to that, John worked in senior management, marketing and operational roles in the United States. John was appointed CEO of Meateor Foods in March 2015.

Kent Ritchie, CEO Scales Logistics

Kent joined Scales in 1998, and has spent over 30 years in the shipping industry. He has been involved in setting up shipping services from New Zealand, has experience in all aspects of the transport industry and has led Scales' expansion into the logistics arena.

Kevin Cahill, Executive Director Liqueo

Kevin joined the staff of Polarcold in 1978 as Works Manager, when the company was known as SC Co-op Cool Stores Limited. Kevin was previously the CEO of Polarcold and Liqueo, retiring from his position as CEO of Polarcold in May 2015, having spent 37 years with the company.



FINANCIAL STATEMENTS

Contents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	NOTE	2016 $'000	2015 $'000 (Restated)
Revenue	B1	373,927	301,410
Cost of sales	B2	(257,038)	(194,142)
		116,889	**107,268**
Share of profits of entities accounted for using the equity method	C3	1,612	2,268
Other income	B3	275	1,946
Administration and operating expenses	B2	(50,197)	(48,486)
Other losses	B3	(1,258)	-
EBITDA		**67,321**	**62,996**
Amortisation		(661)	(1,088)
Depreciation	C1	(11,438)	(10,243)
EBIT		**55,222**	**51,665**
Finance revenue		167	185
Finance cost	B4	(2,533)	(2,801)
PROFIT BEFORE INCOME TAX EXPENSE		**52,856**	**49,049**
Income tax expense	B5	14,678	13,155
PROFIT FOR THE YEAR		**38,178**	**35,894**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on cash flow hedges		9,382	(8)
Income tax relating to cash flow hedges		(2,627)	(27)
		6,755	**(35)**
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		26,945	-
Income tax relating to buildings		(3,041)	-
Revaluation of apple trees		11,839	-
Income tax relating to apple trees		(3,315)	-
		32,428	**-**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**39,183**	**(35)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**77,361**	**35,859**
Profit for the Year Attributable to:			
Equity holders of the Company		37,772	35,894
Non-controlling Interests		406	-
		38,178	**35,894**
Total Comprehensive Income for the Year Attributable to:			
Equity holders of the Company		76,955	35,859
Non-controlling Interests		406	-
		77,361	**35,859**
EARNINGS PER SHARE:	D5		
Basic and diluted earnings per share (cents)		27.0	25.7

The notes to the financial statements on pages 53 to 79 form part of and should be read in conjunction with this statement.

	NOTE	Share Capital $'000	Revaluation Reserve $'000	Hedging Reserve $'000	Equity-settled Employee Benefits Reserve $'000	Retained Earnings $'000	Attributable to Owners of the Company $'000	Non-controlling Interests $'000	Total $'000
Balance at 1 January 2015		**90,915**	**25,289**	**2,245**	**65**	**27,816**	**146,330**	**-**	**146,330**
Profit for the year (Restated)		-	-	-	-	35,894	35,894	-	35,894
Other comprehensive loss for the year		-	-	(35)	-	-	(35)	-	(35)
Total comprehensive income for the year (Restated)		-	-	(35)	-	35,894	35,859	-	35,859
Recognition of share-based payments	D2	-	-	-	168	-	168	-	168
Shares purchased	D1	(160)	-	-	-	-	(160)	-	(160)
Dividends paid	D3	-	-	-	-	(9,685)	(9,685)	-	(9,685)
Dividends declared	D3	-	-	-	-	(14,527)	(14,527)	-	(14,527)
Balance at 31 December 2015 (Restated)		**90,755**	**25,289**	**2,210**	**233**	**39,498**	**157,985**	**-**	**157,985**
Profit for the year		-	-	-	-	37,772	37,772	406	38,178
Other comprehensive income for the year		-	32,428	6,755	-	-	39,183	-	39,183
Total comprehensive income for the year		-	32,428	6,755	-	37,772	76,955	406	77,361
Recognition of share-based payments	D2	-	-	-	270	-	270	-	270
Shares purchased	D1	(1,007)	-	-	-	-	(1,007)	-	(1,007)
Dividends paid	D3	-	-	-	-	(8,974)	(8,974)	-	(8,974)
Dividends declared	D3	-	-	-	-	(11,045)	(11,045)	-	(11,045)
Balance at 31 December 2016		**89,748**	**57,717**	**8,965**	**503**	**57,251**	**214,184**	**406**	**214,590**

The notes to the financial statements on pages 53 to 79 form part of and should be read in conjunction with this statement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	NOTE	2016 $'000	2015 $'000 (Restated)
EQUITY			
Share capital	D1	89,748	90,755
Revaluation reserve	D2	57,717	25,289
Hedging reserve	D2	8,965	2,210
Equity-settled employee benefits reserve	D2	503	233
Retained earnings	D2	57,251	39,498
Equity attributable to Scales Corporation Limited Shareholders		214,184	157,985
Equity attributable to Non-controlling Interests		406	-
TOTAL EQUITY		**214,590**	**157,985**
Represented By:			
CURRENT ASSETS			
Cash and bank balances		6,355	13,832
Trade and other receivables	E1	17,529	14,681
Other financial assets	E2	8,464	5,476
Unharvested agricultural produce	C2	18,433	15,493
Inventories	C5	16,365	14,314
Prepayments		3,655	2,966
TOTAL CURRENT ASSETS		**70,801**	**66,762**
NON-CURRENT ASSETS			
Property, plant and equipment	C1	226,652	168,067
Investments accounted for using the equity method	C3	4,131	4,962
Goodwill	C4	16,222	5,319
Other financial assets	E2	11,561	6,192
Computer software		745	929
TOTAL NON-CURRENT ASSETS		**259,311**	**185,469**
TOTAL ASSETS		**330,112**	**252,231**
CURRENT LIABILITIES			
Trade and other payables	E3	22,047	22,276
Dividend declared	D3	11,045	14,527
Borrowings	E4	11,000	-
Current tax liabilities	B5	5,009	4,427
Other financial liabilities	E5	3,357	2,229
TOTAL CURRENT LIABILITIES		**52,458**	**43,459**
NON-CURRENT LIABILITIES			
Borrowings	E4	30,000	30,000
Deferred tax liabilities	B5	28,187	17,933
Other financial liabilities	E5	4,877	2,854
TOTAL NON-CURRENT LIABILITIES		**63,064**	**50,787**
TOTAL LIABILITIES		**115,522**	**94,246**
NET ASSETS		**214,590**	**157,985**

The notes to the financial statements on pages 53 to 79 form part of and should be read in conjunction with this statement.

	2016 $'000	2015 $'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	373,223	300,026
Dividends received	525	895
Interest received	167	185
	373,915	**301,106**
Cash was disbursed to:		
Payments to suppliers and employees	315,413	238,705
Interest paid	2,533	2,801
Income tax paid	14,627	10,616
	332,573	**252,122**
NET CASH GENERATED BY OPERATING ACTIVITIES	**41,342**	**48,984**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Advances repaid	1,100	1,624
Sale of property, plant and equipment and computer software	216	920
	1,316	**2,544**
Cash was applied to:		
Net cash outflow on acquisition of businesses (Note F2)	16,414	-
Purchase of computer software	445	620
Purchase of shares in unlisted companies	53	9
Purchase of property, plant and equipment	19,715	17,210
	36,627	**17,839**
NET CASH USED IN INVESTING ACTIVITIES	**(35,311)**	**(15,295)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from borrowings	11,000	-
	11,000	**-**
Cash was applied to:		
Borrowings repaid	-	11,000
Dividends paid	23,501	9,685
Shares purchased	1,007	160
	24,508	**20,845**
NET CASH USED IN FINANCING ACTIVITIES	**(13,508)**	**(20,845)**
NET (DECREASE) INCREASE IN NET CASH	(7,477)	12,844
Cash and cash equivalents at the beginning of the year	13,832	988
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**6,355**	**13,832**
Represented by:		
Cash and bank balances	6,355	13,832
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**6,355**	**13,832**

The notes to the financial statements on pages 53 to 79 form part of and should be read in conjunction with this statement.

	2016 $'000	2015 $'000 (Restated)
NET CASH GENERATED BY OPERATING ACTIVITIES		
Reconciliation of profit for the year to net cash generated by operating activities:		
Profit for the year	38,178	35,894
Non-cash items:		
Amortisation	661	1,088
Hedge ineffectiveness on cash flow hedges	1,258	(1,759)
Deferred tax	36	33
Depreciation	11,438	10,243
Share of equity accounted results	(1,612)	(2,268)
Share-based payments	270	168
Items classified as investing and financing activities:		
Working capital amounts included in acquisition of businesses	(1,162)	-
Dividends received from equity accounted companies	500	870
Gain on disposal of property, plant and equipment	(50)	(163)
Changes in net assets and liabilities:		
Trade and other receivables	(2,848)	(1,383)
Unharvested agricultural produce	(2,940)	-
Inventories	(2,051)	(293)
Prepayments	(689)	(288)
Trade and other payables	(229)	4,336
Current tax	582	2,506
NET CASH GENERATED BY OPERATING ACTIVITIES	**41,342**	**48,984**

Statement of Cash Flows

For the purpose of the statement of cash flows, cash and cash equivalents include cash and bank balances and investments in money market instruments.

The following terms are used in the statement of cash flows:

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Group.

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 27 February 2017.

Jon Mayson, Chairman

Andy Borland, Managing Director

ABOUT THIS REPORT

IN THIS SECTION

The notes to the financial statements include information which is considered relevant and material to assist the reader in understanding the financial performance and financial position of the Scales Corporation Limited Group (Scales). Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding the results of Scales;
- it helps to explain changes in Scales' business; or
- it relates to an aspect of Scales' operations that is important to future performance.

Scales Corporation Limited (the Company) is a for-profit entity domiciled and registered under the Companies Act 1993 in New Zealand. It is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The Group consists of Scales Corporation Limited, its subsidiaries and joint venture. The principal activities of the Group are to provide logistics services, grow apples, export products, provide insurance services to companies within the Group and operate storage and processing facilities.

The financial statements have been prepared:

- in accordance with Generally Accepted Accounting Practice (GAAP), International Financial Reporting Standards (IFRS), the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for a Tier 1 for-profit entity;
- in accordance with the requirements of the Financial Markets Conduct Act 2013;
- in accordance with accounting policies that are consistent with those applied in the previous year except for the changes described in note H1;
- on the basis of historical cost, except for certain assets and financial instruments that are measured at fair values; and
- in New Zealand dollars with all values rounded to the nearest thousand dollars.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable. The levels are described as:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date:
- Level 2 inputs are inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Key Judgements and Estimates

In the process of applying the Group's accounting policies and the application of financial reporting standards, Scales has made a number of judgements and estimates. The estimates and underlying assumptions are based on historical experience and various other factors that are considered to be appropriate under the circumstances. Actual results may differ from these estimates.

Judgements and estimates which are considered material to understanding the performance of Scales are explained in the following notes:

- Apple trees in note C1.
- Land and buildings in note C1.
- Unharvested agricultural produce C2.

Basis of Consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiaries (being entities controlled by Scales Corporation Limited), and the equity accounted result, assets and liabilities of the joint venture, as listed in section F Group Structure.

The financial statements of members of the Group are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the Group financial statements, all material intra-group transactions, balances, income, expenses and cash flows have been eliminated. Subsidiaries are consolidated from the date on which control is obtained to the date on which control is lost.

Other Accounting Policies

Other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Change in accounting policy on adoption of amendments to financial reporting standards and resulting restatement

The Group has adopted the amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture* which are effective for periods beginning on 1 January 2016. The amendments bring bearer plants (apple trees), which are used to grow produce, into the scope of NZ IAS 16 and out of the scope of NZ IAS 41 so that they are accounted for in the same way as property, plant and equipment.

The produce growing on bearer plants continues to be accounted for as a biological asset (unharvested agricultural produce) under NZ IAS 41. This amendment was applied to the Group's apple trees. These financial statements have been retrospectively restated to reflect this accounting policy change. Note H1 provides further details of the effect of adopting
these amendments.

On adoption of the amendment, the Group elected to measure its apple trees using the revaluation model.

Adoption of New and Revised Standards and Interpretations - Standards and Interpretations in Issue not yet Effective

The Group has reviewed all Standards, Interpretations and Amendments to existing Standards in issue not yet effective and, with the exception of NZ IFRS 9 (2014) *Financial Instruments* which is effective for the financial year ending 31 December 2018, NZ IFRS 15 *Revenue from Contracts with Customers* which is effective for the Financial year ending 31 December 2018 and NZ IFRS 16 *Leases* which is effective for the financial year ending 31 December 2019, does not expect these Standards to have a material effect on the financial statements of the Group.

NZ IFRS 9 (2014) *Financial Instruments* establishes the principles for hedge accounting and impairment of financial assets. The Group has not yet determined the potential impact of this Standard.

NZ IFRS 15 *Revenue from Contracts with Customers* provides a single, comprehensive principles-based five-step model to be applied to all contracts with customers. The five steps in the model are: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and, recognise revenue when (or as) the entity satisfies a performance obligation. The Group has not yet determined the potential impact of this Standard.

NZ IFRS 16 *Leases* eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their statement of financial position. The accounting by lessors will remain largely unchanged. The Group has not yet determined the potential impact of this Standard.

A. SEGMENT INFORMATION

IN THIS SECTION

This section explains the financial performance of the operating segments of Scales, providing additional information about individual segments, including:

- total segment revenue and revenue from external customers;
- segment profit before income tax; and
- total segment assets and liabilities

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, being the Managing Director. The Managing Director monitors the operating performance of each segment for the purpose of making decisions on resource allocation and strategic direction.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

No single external customer's revenue accounts for 10% or more of the Group's revenue.

All non-current assets are located in New Zealand.

The Group comprises the following operating segments:

Food Ingredients: processing and marketing of food ingredients such as pet food ingredients and juice concentrate. Meateor Foods Limited, Meateor Foods Australia Pty Limited and Profruit (2006) Limited.

Horticulture: orchards, fruit packing and marketing. Mr Apple New Zealand Limited, New Zealand Apple Limited, Fern Ridge Produce Limited, Longview Group Holdings Limited, Longview New Zealand Limited and Longview Packhouse Limited.

Storage & Logistics: cool, cold and bulk liquid storage and logistics services. Liqueo Bulk Storage Limited, Polarcold Stores Limited, Scales Logistics Limited and Whakatu Coldstores Limited.

Other: Scales Corporation Limited, Geo. H. Scales Limited, Scales Employees Limited, Scales Holdings Limited and Selacs Insurance Limited.

	Food Ingredients $'000	Horticulture $'000	Storage & Logistics $'000	Other $'000	Eliminations $'000	Total $'000
2016						
Total segment revenue	58,038	230,077	108,383	3,525	(26,096)	373,927
Inter-segment revenue	-	(212)	(23,131)	(2,753)	26,096	-
Revenue from external customers	58,038	229,865	85,252	772	-	373,927
Gain (loss) on sale of non-current assets	1	70	(20)	(1)	-	50
Share of profits of entities accounted for using the equity method	1,612	-	-	-	-	1,612
EBITDA	9,016	45,258	16,182	(3,135)	-	67,321
Amortisation expense	(2)	(278)	(359)	(22)	-	(661)
Depreciation expense	(501)	(5,950)	(4,971)	(16)	-	(11,438)
Finance revenue	1	108	15	43	-	167
Finance costs	-	(13)	-	(2,520)	-	(2,533)
Segment profit (loss) before income tax	8,514	39,125	10,867	(5,650)	-	52,856

SEGMENT REPORTING (continued)

	Food Ingredients $'000	Horticulture $'000	Storage & Logistics $'000	Other $'000	Eliminations $'000	Total $'000
Segment assets	27,327	185,423	109,971	7,391	-	330,112
Segment liabilities	6,325	44,781	20,777	43,639	-	115,522
Segment carrying value of investments accounted for using the equity method	4,131	-	-	-	-	4,131
Segment acquisition of property, plant and equipment and other intangible assets	370	12,722	7,060	8	-	20,160
Property, plant and equipment and other intangible assets included in business acquisitions (note F2)	-	11,722	-	-	-	11,722
2015						
Total segment revenue	48,570	178,126	95,622	3,354	(24,262)	301,410
Inter-segment revenue	-	-	(21,648)	(2,614)	24,262	-
Revenue from external customers	48,570	178,126	73,974	740	-	301,410
Gain (loss) on sale of non-current assets	-	204	(38)	(3)	-	163
Share of profits of entities accounted for using the equity method	1,454	814	-	-	-	2,268
EBITDA (Restated)	7,663	41,624	16,294	(2,585)	-	62,996
Amortisation expense	(6)	(321)	(723)	(38)	-	(1,088)
Depreciation expense (Restated)	(494)	(5,470)	(4,270)	(9)	-	(10,243)
Finance revenue	1	41	15	128	-	185
Finance costs	-	-	-	(2,801)	-	(2,801)
Segment profit (loss) before income tax (Restated)	7,164	35,874	11,316	(5,305)	-	49,049
Segment assets (Restated)	24,964	120,472	96,013	10,782	-	252,231
Segment liabilities (Restated)	6,332	32,669	19,189	36,056	-	94,246
Segment carrying value of investments accounted for using the equity method	3,019	1,943	-	-	-	4,962
Segment acquisition of property, plant and equipment and other intangible assets (Restated)	220	5,624	9,924	38	-	15,806

	2016 $'000	2015 $'000
The total revenue from external customers in New Zealand and other countries are:		
New Zealand	107,111	95,965
Asia	83,511	67,907
Europe	76,530	64,704
North America	75,210	45,562
Other	31,565	27,272
	373,927	**301,410**

B. FINANCIAL PERFORMANCE

IN THIS SECTION

This section explains the financial performance of Scales, providing additional information about individual items in the statement of comprehensive income, including:

- accounting policies, judgements and estimates that are relevant for understanding items recognised in the statement of comprehensive income; and
- analysis of Scales' performance for the year by reference to key areas including; revenue, expenses and taxation.

B1. REVENUE

	2016 $'000	2015 $'000
Revenue from the sale of goods	269,062	218,566
Revenue from the rendering of services	92,507	81,827
Fees and commission	681	454
Net foreign exchange gain (loss)	7,925	(6,929)
Net hail insurance proceeds	-	4,192
Rental revenue	3,752	3,300
	373,927	301,410

Sale of Goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the amount of revenue and costs incurred can be measured reliably, management have effectively ceased involvement or control over the goods sold and it is probable that the economic benefits associated with the transaction will flow to the Group.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract at reporting date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Fees and Commission

Fees and commission are recognised as revenue when the Group's right to receive payment becomes unconditional.

Net Hail Insurance Proceeds

Net hail insurance proceeds are recognised as revenue when the Group's right to receive payment becomes unconditional.

Rental Income

Rental income is recognised on a straight-line basis over the term of the relevant lease.

B2. COST OF SALES, ADMINISTRATION AND OPERATING EXPENSES

Auditor's remuneration:		
Audit of the financial statements		
Audit of the annual financial statements	141	106
Review of interim financial statements	40	35
Other services		
Acquisition due diligence services	89	-
Audit of solvency certificate for Selacs Insurance Limited	6	9
Review of financial statement presentation	-	5
Risk management review	17	-
Tax compliance services	4	33
Tax services re employee share scheme	6	69

B2. COST OF SALES, ADMINISTRATION AND OPERATING EXPENSES (continued)

	2016 $'000	2015 $'000
Bad debts (recovered) incurred	(390)	225
Change in fair value of unharvested agricultural produce	(993)	-
Change in inventories	(2,051)	(293)
Direct expenses	35,299	26,747
Directors' fees	434	360
Donations	14	19
Electricity	8,427	7,315
Employee benefits expense:		
Post employment benefits - defined contribution plans	1,235	1,167
Salaries, wages and related benefits	68,777	59,917
Other employee benefits	314	366
Grower payments	58,972	30,827
Insurance	3,369	3,315
Management fees	108	114
Materials and consumables	44,238	34,169
Ocean and air freight	50,911	45,610
Operating lease expenses	14,998	11,894
Packaging	15,913	13,245
Repairs and maintenance	7,357	7,374
	307,235	**242,628**
Disclosed as:		
Cost of sales	257,038	194,142
Administration and operating expenses	50,197	48,486
	307,235	**242,628**

Employee Benefits

An accrual is made for benefits due to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Accruals are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Contributions to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The costs relating to shares issued in accordance with the Senior Executive Share Scheme are explained in note D2.

Leased Assets

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are recognised as an expense on a straight-line basis over the lease term.

B3. OTHER INCOME AND LOSSES

Dividends	25	24
Gain on disposal of property, plant and equipment	50	163
Hedge ineffectiveness on cash flow hedges	(1,258)	1,759
Insurance proceeds	200	-
	(983)	**1,946**
Disclosed as:		
Other income	275	1,946
Other expenses	(1,258)	-
	(983)	**1,946**

B4. FINANCE COST

	2016 $'000	2015 $'000
Interest on loans	2,346	2,588
Other interest	41	36
Bank facility fees	146	177
	2,533	**2,801**

Finance costs consist of interest and other costs incurred in connection with the borrowing of funds. Interest expense is accrued on a time basis using the effective interest method.

B5. TAXATION

Income Tax Recognised in Profit or Loss

Income tax expense comprises:		
Current tax expense	14,648	13,252
Adjustments recognised in the current year in relation to the current tax of prior years	(6)	(130)
Deferred tax expense relating to the origination and reversal of temporary differences	36	33
Total income tax expense recognised in profit or loss	**14,678**	**13,155**

The prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before income tax expense	**52,856**	**49,049**
Income tax expense calculated at 28%	14,799	13,733
Non-assessable income	(448)	(747)
Non-deductible expenses	321	158
Over provision of income tax in previous year - current tax	(6)	(130)
Under provision of income tax in previous year - deferred tax	12	141
	14,678	**13,155**

The tax rate used in the above reconciliation is the corporate tax rate of 28% payable by New Zealand companies under New Zealand tax law.

Current Tax Liability		
Balance at beginning of the year	4,427	1,921
Arising on acquisition of businesses	567	-
Current taxation expense	14,642	13,122
Taxation paid	(14,627)	(10,616)
Balance at end of the year	**5,009**	**4,427**

B5. TAXATION (continued)

	Opening balance	Charged to profit or loss	Charged to other comprehensive income	Acquisition of Businesses	Closing balance
	$'000	$'000	$'000	$'000	$'000
Deferred Tax Liability					
Taxable and deductible temporary differences arise from the following:					
31 December 2016					
Deferred tax liabilities (assets):					
Trade and other receivables	(81)	76	-	-	(5)
Unharvested agricultural produce	4,338	440	-	105	4,883
Computer software	11	-	-	-	11
Property, plant and equipment	13,334	(509)	6,356	1,142	20,323
Trade and other payables	(529)	29	-	(12)	(512)
Other financial assets and liabilities	860	-	2,627	-	3,487
Net deferred tax liability	**17,933**	**36**	**8,983**	**1,235**	**28,187**
31 December 2015					
Deferred tax liabilities (assets):					
Trade and other receivables	2	(83)	-	-	(81)
Unharvested agricultural produce (Restated)	3,772	566	-	-	4,338
Computer software	11	-	-	-	11
Property, plant and equipment (Restated)	13,842	(508)	-	-	13,334
Trade and other payables	(587)	58	-	-	(529)
Other financial assets and liabilities	833	-	27	-	860
Net deferred tax liability	**17,873**	**33**	**27**	**-**	**17,933**

Current tax is the taxation expected to be paid to Taxation Authorities in respect of the current year.

Deferred taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

Current and deferred tax is calculated on the basis of the laws enacted or substantively enacted at balance date.

Income Tax

Current and deferred tax are recognised in profit or loss, except when the tax relates to items charged or credited to other comprehensive income, in which case the tax is also recognised in other comprehensive income.

B6. FOREIGN CURRENCY TRANSACTIONS

In preparing the financial statements of the individual entities, the transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period financial assets and liabilities denominated in foreign currencies are retranslated into New Zealand dollars at the rates prevailing at the end of the reporting period.

Exchange differences are recognised in profit or loss in the period in which they arise.

C. KEY ASSETS

IN THIS SECTION

This section shows the key assets Scales uses to generate operating revenues. There is information about:

- property, plant and equipment;
- unharvested agricultural produce;
- investments accounted for using the equity method;
- goodwill; and
- inventories

C1. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings at fair value $'000	Apple Trees at fair value $'000 (Restated)	Plant and Equipment at cost $'000	Office Equipment & Motor Vehicles at cost $'000	Capital Work in Progress at cost $'000	Total $'000 (Restated)
Gross carrying amount						
Balance 1 January 2015	103,833	17,897	88,359	15,912	6,606	232,607
Additions	992	613	14,478	1,519	(2,414)	15,188
Disposals	(293)	-	(2,082)	(542)	(40)	(2,957)
Balance 31 December 2015	104,532	18,510	100,755	16,889	4,152	244,838
Additions	6,904	2,909	6,086	3,056	761	19,716
Acquisition of businesses	8,866	200	2,563	93	-	11,722
Disposals	-	-	(543)	(756)	-	(1,299)
Revaluation	20,368	9,520	-	-	-	29,888
Balance 31 December 2016	**140,670**	**31,139**	**108,861**	**19,282**	**4,913**	**304,865**
Accumulated depreciation and impairment						
Balance 1 January 2015	2,217	-	55,368	11,142	-	68,727
Depreciation expense	2,204	1,193	5,293	1,553	-	10,243
Disposals	(19)	-	(1,787)	(393)	-	(2,199)
Balance 31 December 2015	4,402	1,193	58,874	12,302	-	76,771
Depreciation expense	2,175	1,311	6,128	1,824	-	11,438
Disposals	-	-	(432)	(668)	-	(1,100)
Revaluation	(6,577)	(2,319)	-	-	-	(8,896)
Balance 31 December 2016	**-**	**185**	**64,570**	**13,458**	**-**	**78,213**
Net book value						
As at 31 December 2015	100,130	17,317	41,881	4,587	4,152	168,067
As at 31 December 2016	**140,670**	**30,954**	**44,291**	**5,824**	**4,913**	**226,652**

C1. PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting Policy

Land, buildings and apple trees on owned orchards are included in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such land, buildings and apple trees on owned orchards is recognised in other comprehensive income and accumulated as a separate component of equity in the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land, buildings and apple trees is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and apple trees is charged to profit or loss. On the subsequent sale or retirement of revalued property or apple trees, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Office equipment, motor vehicles, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, including buildings and apple trees but excluding land and capital work in progress. Depreciation is charged so as to write off the cost or valuation of assets, other than land and capital work in progress, over their estimated useful lives, using either the straight-line or the diminishing value method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following estimated useful lives are used in the calculation of depreciation:

Apple trees	30 years
Buildings	10 to 50 years
Office Equipment and Motor Vehicles	2 to 20 years
Plant and Equipment	2 to 25 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Land and Buildings carried at Fair Value

Land and buildings shown at valuation were valued at fair value as at 31 December 2016 by independent registered valuers Added Valuation Limited ($77,730,000), Logan Stone Limited ($58,314,000) and Telfer Young Limited ($3,865,000). The valuations, which conform to the New Zealand Property Institute Practice Standard 3 - Valuations for Financial Reporting Purposes, were arrived at by reference to market evidence of transaction prices for similar properties.

The fair value of land and buildings is calculated on the basis of market value. Market value is determined applying income capitalisation and comparative sales calculations which are benchmarked against depreciated replacement cost calculations. The valuations include adjustments to observable data for similar properties to take into account property-specific attributes.

The significant unobservable inputs, based on regional averages, for the land and buildings (mainly coldstores and packhouses) are potential market comparative rentals $10 - $220 per square metre and capitalisation rates of 8% - 18%. The higher the rental rates the higher the fair value. The higher the capitalisation rates the lower the fair value. Significant changes in either of these inputs would result in significant changes to the fair value measurement.

The Group's land and buildings are classified as Level 3 in the fair value hierarchy.

The carrying amount of land and buildings had it been recognised under the cost model is $83,869,000
(31 December 2015 $70,274,000).

Apple Trees carried at Fair Value

The Group's apple orchards, being the apple trees other than the existing crop on the trees, were valued at fair value by Boyd Gross B.Agr (Rural Val), Dip Bus Std, FNZIV, FPINZ of Logan Stone Limited as at 31 December 2016. The market valuations completed by Boyd Gross were based on a DCF analysis of forecast income streams and costs. This was benchmarked against a comparison of sales of other orchards adjusted to reflect the location, plantings, age and varieties of trees and productive capabilities of the orchards.

The significant unobservable inputs, based on district averages, for the apple trees valuations included in the valuer's report are the:

	2016	2015
Production levels (gross tray carton equivalent (tce)) per hectare	3,624 - 5,709	2,500 - 5,265
Orchard gate returns per tce	$25.31 - $38.90	$21.00 - $42.20
Orchard costs per tce	$17.00 - $28.60	$15.50 - $21.00
Discount rate	18.0% - 21.40%	19.8% - 23.8%

C1. PROPERTY, PLANT AND EQUIPMENT (continued)

The higher the production levels and orchard gate return the higher the fair value. The higher the orchard costs and discount rate the lower the fair value. Significant changes in any of these inputs would result in significant changes to the fair value measurement.

The Group's apple trees are classified as level 3 in the fair value hierarchy.

The apple trees, on owned and leased orchards, have the following planting profile:

	Total Hectares Planted	
	2016	2015
Premium varieties:		
NZ Queen	213	194
Pink Lady	121	107
Red sports (Fuji and Royal Gala)	234	204
Other premium	59	43
Traditional varieties:		
Braeburn	171	172
Royal Gala	186	173
Other traditional	160	149
	1,144	**1,042**

The exported volume from Mr Apple's planted apple orchard was 3,546,000 TCE's (2015: 3,147,000 TCE's).

Risk Management Strategy:

The Group is exposed to financial risks arising from changes in climatic conditions, market prices and the value of the New Zealand dollar. The Group mitigates these risks by installing hail and frost protection on orchards which have shown to be more susceptible to these risks, obtaining hail insurance cover, utilising foreign currency derivative instruments and building close working relationships with key customers.

C2. UNHARVESTED AGRICULTURAL PRODUCE

	2016	2015
	$'000	$'000
Balance at beginning of the year	15,493	13,471
Decrease due to Harvest	(15,493)	(13,471)
Acquisition of businesses	375	-
Development expenditure	17,065	15,493
Fair value adjustment	993	-
Balance at end of the year	**18,433**	**15,493**

The assessment of the value of unharvested agricultural produce was undertaken by management, using a discounted cash flow model, and is calculated as the fair value less estimated harvest and post-harvest costs of the unharvested crop on the trees at the reporting date. The risk adjusting discount rate represents an allowance for adverse events that may affect crop, harvest and/or market conditions. This calculation is also benchmarked against orchard costs incurred during the current growing cycle.

The significant unobservable inputs included in the model are the:

Production levels (tonnes per hectare per annum)	50 - 100	50 - 100
Orchard gate returns per tce	$20 to $40	$20 to $42
Risk adjusting discount rates	55% to 73%	53% to 72%

The higher the yield per hectare and the higher the orchard gate returns per tce, the higher the fair value. The higher the risk adjusting discount rate, the lower the fair value.

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2016			2015		
	Associate Company	**Joint Venture**	**Total**	**Associate Company**	**Joint Venture**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000
Share of profit before taxation	-	2,241	2,241	1,133	2,035	3,168
Share of income tax	-	(629)	(629)	(319)	(581)	(900)
Share of Net Profit for the Year and Total Comprehensive Income	-	1,612	1,612	814	1,454	2,268
Carrying value at beginning of the year	1,944	3,019	4,963	2,000	1,564	3,564
Disposal of equity interest in Fern Ridge Produce Limited	(1,944)	-	(1,944)	-	-	-
Dividend paid	-	(500)	(500)	(870)	-	(870)
INVESTMENT IN EQUITY ACCOUNTED ENTITIES	**-**	**4,131**	**4,131**	**1,944**	**3,018**	**4,962**

On 11 January 2016 the Group acquired a further 22.88% of the share capital of Fern Ridge Produce Limited and it is now a subsidiary company. Details of this acquisition are included in Note F2.

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 investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Dividends or distributions received from an associate or joint venture reduce the carrying amount of the investment in that associate or joint venture in the Group financial statements. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture until the date it ceases to be an associate or joint venture. On acquisition of the investment in an associate or joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying value of the investment. The requirements of NZ IAS 36 are applied to determine whether it is necessary to recognise any impairment loss.

C4. GOODWILL

	2016	2015
	$'000	$'000
Gross Carrying Amount		
Balance at beginning of the year	5,319	5,319
Arising on acquisition of:		
Fern Ridge Produce Limited	5,702	-
Longview Group Holdings Limited	5,201	-
Balance at end of the year	**16,222**	**5,319**

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

C4. GOODWILL (continued)

For the purpose of impairment testing, goodwill has been allocated to the cash-generating units listed below which represent the lowest level at which goodwill is monitored.

	2016 $'000	2015 $'000
Storage & Logistics	1,989	1,989
Horticulture	14,233	3,330
	16,222	**5,319**

As at 31 December 2016, the Directors have determined, based on discounted cash flow and value in use calculations, that there is no impairment of goodwill associated with Storage & Logistics and Horticulture. The Directors consider that any reasonably possible changes in the key assumptions would not cause the carrying amount of any of the cash-generating units to exceed their recoverable amount.

C5 . INVENTORIES

Finished goods	12,489	11,512
Other	3,876	2,802
	16,365	**14,314**

Inventories are stated at the lower of cost and net realisable value. Cost means the actual cost of the inventory and in determining cost the first in first out basis of stock movement is followed, with due allowance having been made for obsolescence. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

C6. IMPAIRMENT OF ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

D. CAPITAL FUNDING

IN THIS SECTION

This section explains how Scales manages its capital structure and how dividends are returned to shareholders. In this section there is information about:

- equity;
- dividends paid; and
- earnings per share.

Capital Management

The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and customer confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

D1. SHARE CAPITAL

Issued and paid up capital consists of 139,779,006 fully paid ordinary shares (2015: 139,779,006) less treasury stock of 1,846,927 shares (2015: 1,532,863 shares) (refer to note D2). All shares rank equally in all respects.

Basic and diluted earnings per share has been calculated on the basis of 139,779,006 shares (2015: 139,779,006).

Shares purchased on market under the senior executive share scheme (note D2) are treated as treasury stock until vesting to the employee.

The Available Subscribed Capital of $34,870,000 (2015: $35,877,000) represents the amount of the shareholders' equity that is available to be returned to shareholders on a tax-free basis.

In accordance with the Companies Act 1993 the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

D2. RESERVES

Revaluation Reserve

The revaluation reserve arises on the revaluation of land, buildings and apple trees, net of the related deferred tax.

Hedging Reserve

The hedging reserve represents the unrealised gains and losses on interest rate and foreign currency contracts taken out to manage the Group interest rate and foreign currency risks, net of the related deferred tax.

Equity-settled Employee Benefits Reserve

The Senior Executive Share Scheme involves the Company making available interest-free loans to selected senior executives to acquire shares in the Company. The senior executive will not gain any benefit with respect to the shares purchased under the Scheme unless they remain in employment with the Group for a period of three years from the date of acquisition of those shares.

The shares are held by a custodian during the restrictive period and are then transferred to the senior executive. All net dividends or distributions received in respect of the shares must be applied to repayment of the interest-free loan.

The 1,436,700 shares acquired during 2014 have an exercise price of $1.60 and vest on 24 July 2017; the 96,163 shares acquired during 2015 have an exercise price of $1.66 and vest on 8 May 2018; and the 314,064 shares acquired during 2016 have an exercise price of $1.67 and vest on 20 April or 24 May 2019. The price that the executives pay for each share is the issue price at grant date, reduced by any dividends that are applied to the loans. No shares vested or were forfeited or expired during the year.

The shares issued vest over three years. Each instrument issued in the current year was estimated to have a fair value of $1.65 (2015: 32.7 cents) at the grant date. The estimated value of the share options was determined using the Black-Scholes pricing calculator and is being amortised over the restrictive period. This cost is expensed with the corresponding credit included in the equity-settled employee benefits reserve. The inputs into the option pricing calculator are the acquisition date share price $3.20 (2015: $1.66), expected share price volatility 24% (2015: 22%), option life 3 years and risk-free interest rate 2.12% (2015: 3.89%).

Retained Earnings

Retained earnings represents the profits retained in the business.

D3. DIVIDENDS

	2016 $'000	2015 $'000
Final dividend - 6.50 (2015: 7.00) cents per share	8,974	9,685
Interim dividend - 8.00 (2015: 6.50) cents per share	11,045	8,993
Special dividend 4.00 cents per share	-	5,534
	20,019	**24,212**

The 2016 interim dividend was declared on 12 December 2016 and paid on 18 January 2017.

D4. IMPUTATION CREDIT ACCOUNT

Balance at end of the year	**17,408**	**10,898**

The imputation credit account balance represents the net amount available at the reporting date that can be attached to future dividends declared.

The Scales Corporation Limited consolidated tax group for income tax includes Scales Corporation Limited and all New Zealand registered subsidiary companies other than Scales Employees Limited.

D5. EARNINGS PER SHARE

Profit attributable to equity holders of the Company - used in the calculation of earnings per share	37,772	35,894
Basic and diluted earnings per share		
Weighted average number of ordinary shares outstanding	139,779,006	139,779,006
Basic and diluted earnings per share (cents)	27.0	25.7

E. FINANCIAL ASSETS AND LIABILITIES

IN THIS SECTION

This section explains the financial assets and liabilities of Scales, the related risks and how Scales manages these risks. In this section of the notes there is information on:

- the accounting policies, judgements and estimates relating to financial assets and liabilities; and
- the financial instruments used to manage risk.

ACCOUNTING POLICIES

Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'measured at amortised cost'.

The classification depends on the business model for managing the financial asset and the cash flow characteristics of the financial asset and is determined at the time of initial recognition or when a change in the business model occurs.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are not measured at amortised cost. Gains and losses on a financial asset designated in this category and not part of a hedging relationship are recognised in profit or loss.

Financial assets measured at amortised cost

The Group's financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost. Cash and cash equivalents and trade receivables are classified in this category.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial Liabilities Measured at Amortised Cost

The Group's financial liabilities include trade and other payables and borrowings. These financial liabilities are initially recognised at fair value plus any directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value with reference to observable market data at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as cash flow hedges.

A derivative is presented as a non-current asset or a non-current liability where the cash flow will occur after 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge Accounting

At the inception of a hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item, attributable to the hedged risk.

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in 'other income' or 'other losses'.

Amounts recognised in the hedging reserve are reclassified from equity to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in the hedging reserve is recognised immediately in profit or loss.

E1. TRADE AND OTHER RECEIVABLES

	2016 $'000	2015 $'000
Trade receivables	14,574	11,822
Other receivables	593	603
Owing by entities accounted for using the equity method	349	531
Goods and services tax	2,013	1,725
	17,529	**14,681**

Credit Risk Management

The Group activities expose it to credit risk which refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments which potentially subject the Group to credit risk principally consist of cash and cash equivalents, trade and other receivables and advances as disclosed in note E2. The Group performs credit evaluations on trade customers, obtains trade credit insurance as appropriate but generally does not require collateral. The Group continuously monitors the credit quality of its major receivables and does not anticipate non-performance of those customers. Cash and cash equivalents are placed with high credit quality financial institutions.

There is a significant concentration of credit risk with five customers who represent 35.63% (2015 five customers who represent 22.01%) of trade and other receivables.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Included in Trade Receivables are debtors which are past due at balance date, as payment was not received within one month, and for which no provision has been made as there has not been a significant change in credit quality and the amounts are still considered recoverable. No collateral is held over these balances although trade credit insurance cover is obtained in respect of some specific receivables. Interest is not charged on overdue debtors. The ageing of these past due trade receivables is:

One month	2,363	2,191
Two months	639	654
More than two months	2,139	636
	5,141	**3,481**

E2. OTHER FINANCIAL ASSETS

Current:

At fair value:		
Foreign currency derivative instruments	8,409	4,540
At amortised cost:		
Advances to entities accounted for using the equity method	-	530
Advances to other entities	55	406
	8,464	**5,476**

Non-current:

At fair value:		
Foreign currency derivative instruments	11,231	5,705
Shares in unlisted companies	206	144
At amortised cost:		
Employee loans	124	343
	11,561	**6,192**

E3. TRADE AND OTHER PAYABLES

	2016 $'000	2015 $'000
Trade payables	12,737	12,981
Accruals	4,882	5,665
Employee entitlements	4,428	3,630
	22,047	**22,276**

E4. BORROWINGS

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest method.

The Group signed Multi-Option Facility Agreements with Rabobank and Westpac New Zealand Limited on 22 March 2013. The total facility is $102,000,000. At 31 December 2016 the undrawn amount under these facilities, after allowing $2,000,000 to cover the bank overdraft facilities, was $59,000,000 (2015: $70,000,000). The floating interest rates are 2.91% to 3.25% (2015: 4.07%) and the term borrowing facility roll-over date is 30 June 2019. The bank facilities are secured by a registered first and exclusive general security over the company and all subsidiaries (other than Selacs Insurance Limited, Scales Employees Limited and Meateor Foods Australia Pty Limited) and mortgages over all Group land and buildings.

The Multi-Option Facility Agreements with the Group's banks includes the requirement that at all times the Tangible Net Worth of the Group, being Tangible Assets less Total Liabilities (excluding deferred tax liabilities), be not less than $100,000,000. The Group has complied with this requirement since the facility was established. The Group policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. There have been no material changes to the Group's management of capital during the year.

E5. OTHER FINANCIAL LIABILITIES

Current financial liabilities at fair value:

Foreign currency derivative instruments	2,047	2,145
Interest rate swap contracts and forward rate agreements	371	84
Fern Ridge Produce Limited put option (Note F2)	939	-
	3,357	**2,229**

Non-current financial liabilities at fair value:

Foreign currency derivative instruments	3,111	1,799
Interest rate swap contracts and forward rate agreements	826	1,055
Fern Ridge Produce Limited put option (Note F2)	940	-
	4,877	**2,854**

E6. INTEREST RATE RISK

Interest Rate Risk Management

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. Management monitors the level of interest rates on an ongoing basis and may use interest rate swaps and forward rate agreements to manage interest rate risk.

Interest Rate Swap Contracts and Forward Rate Agreements

Under interest rate swap contracts and forward rate agreements, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts, some of which commence in future reporting years, enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued floating rate debt. The fair value of these contracts at the reporting date is determined by discounting the future cash flows using the forward interest rate curves at reporting date and the credit risk inherent in the contracts. The average contracted fixed interest rate is based on the notional principal amount at balance date.

E6. INTEREST RATE RISK (continued)

Details of interest rate swap contracts and forward rate agreements for the Group are:

Maturity Date	Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2016	2015	2016	2015	2016	2015
	%	%	$'000	$'000	$'000	$'000
Interest rate swap contracts:						
Within one year	4.97	-	10,000	-	(280)	-
Two to five years	4.02	4.14	30,000	30,000	(826)	(856)
After five years	-	4.62	-	10,000	-	(159)
Forward rate agreements:						
Within one year	3.55	3.65	25,000	25,000	(91)	(84)
Two to five years	-	3.55	-	25,000	-	(40)
					(1,197)	**(1,139)**

These interest rate swap contracts and forward rate agreements, exchanging floating rate interest amounts for fixed rate interest amounts, are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from floating interest rates on borrowings. The interest rate swap and forward rate agreement payments, and the interest payments on the loans occur simultaneously, and the amount deferred in equity is recognised in profit or loss over the period that the floating rate interest payments on debt impact profit or loss.

The Group's interest rate swap contracts and forward rate agreements are classified as Level 2 in the fair value hierarchy.

At 31 December 2016 it is estimated that a general increase of one percent in interest rates would decrease the Group's profit after income tax and equity by approximately $451,000 (2015: $417,000).

E7. FOREIGN CURRENCY RISK

Foreign Currency Risk Management

Foreign currency risk is the risk that the value of the Group's assets and liabilities or revenues and expenses will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk as a result of normal trading transactions denominated in foreign currencies. The currencies in which the Group primarily trades are the Australian dollar, Euro, Canadian dollar, Great Britain pound and United States dollar, with the largest exposure being to the United States dollar.

Currency risk is managed by the natural hedge of foreign currency receivables and payables and the use of foreign currency derivative financial instruments. The fair value of foreign currency derivative financial instruments at the reporting date is determined on a discounted cash flow basis whereby future cash flows are estimated based on forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The Group's forward foreign exchange contracts and foreign exchange options are classified as Level 2 in the fair value hierarchy.

Details of foreign currency instruments at balance date for the Group are:

	2016		2015	
	Contract Value	Fair Value	Contract Value	Fair Value
	$'000	$'000	$'000	$'000
Sale commitments forward foreign exchange contracts	165,524	7,250	152,613	1,955
Sale commitments foreign exchange options	128,150	7,232	146,158	4,346

These foreign currency instruments are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movements in foreign currency exchange rates on anticipated future transactions. It is anticipated that the sales will take place during the 2017 to 2020 financial years at which stage the amount deferred in equity will be released into profit or loss.

It is estimated that a general increase of five cents in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit after income tax by $9,939,000 (2015: $10,159,000). A decrease in exchange rates would have the opposite impact on profit.

E8. CATEGORIES OF FINANCIAL INSTRUMENTS

	2016	2015
	$'000	$'000
Financial Assets:		
Fair value through profit or loss	206	144
Derivative instruments in designated hedge accounting relationships	19,640	10,245
Amortised cost	22,050	28,068
	41,896	**38,457**
Financial Liabilities:		
Amortised cost	74,092	66,802
Fair value through profit or loss	1,879	-
Derivative instruments in designated hedge accounting relationships	6,355	5,084
	82,326	**71,886**

E9. MATURITY PROFILE OF FINANCIAL LIABILITIES

Liquidity Risk Management

The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Within Three Months	Four Months to One Year	One to Five Years	Total
	$'000	$'000	$'000	$'000
2016				
Trade and other payables	22,047	-	-	22,047
Dividend declared	11,045	-	-	11,045
Fern Ridge Produce Limited put options	939	-	940	1,879
Borrowings	324	11,812	31,462	43,598
Interest rate swaps and forward rate agreements	113	315	684	1,112
	34,468	**12,127**	**33,086**	**79,681**
2015				
Trade and other payables	22,276	-	-	22,276
Dividend declared	14,527	-	-	14,527
Borrowings	305	916	30,611	31,832
Interest rate swaps and forward rate agreements	92	276	1,035	1,403
	37,200	**1,192**	**31,646**	**70,038**

F. GROUP STRUCTURE

IN THIS SECTION

This section provides information to help readers understand the Scales Group structure and how it affects the financial position and performance of the Group. In this section there is information about:

- subsidiary companies;
- the acquisition of further shares in Fern Ridge Produce Limited;
- the acquisition of shares in Longview Group Holdings Limited; and
- investments in associate company and joint venture.

F1. SUBSIDIARY COMPANIES

Subsidiary Companies:	Principal Activity	Country of Incorporation	Holding 2016	Holding 2015	Balance Date
Meateor Foods Limited	Trading company	New Zealand	100%	100%	31 December
Meateor Foods Australia Pty Limited	Trading company	Australia	100%	100%	31 December
Mr Apple New Zealand Limited	Trading company	New Zealand	100%	100%	31 December
New Zealand Apple Limited	Trading company	New Zealand	100%	100%	31 December
Fern Ridge Produce Limited (Note F2)	Trading company	New Zealand	72.88%	0%	31 December
Longview Group Holdings Limited (Note F2)	Trading company	New Zealand	100%	0%	31 December
Longview New Zealand Limited (Note F2)	Trading company	New Zealand	100%	0%	31 December
Longview Packhouse Limited (Note F2)	Trading company	New Zealand	100%	0%	31 December
Liqueo Bulk Storage Limited	Trading company	New Zealand	100%	100%	31 December
Polarcold Stores Limited	Coldstore operator	New Zealand	100%	100%	31 December
Scales Logistics Limited	Freight consolidator	New Zealand	100%	100%	31 December
Whakatu Coldstores Limited	Coldstore operator	New Zealand	100%	100%	31 December
Geo. H. Scales Limited	Non trading company	New Zealand	100%	100%	31 December
Scales Employees Limited	Custodial company	New Zealand	100%	100%	31 December
Scales Holdings Limited	Holding company	New Zealand	100%	100%	31 December
Selacs Insurance Limited	Insurance company	New Zealand	100%	100%	31 December

Subsidiary companies are controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the company loses control of the subsidiary.

F2. ACQUISITION OF SUBSIDIARIES

Fern Ridge Produce Limited:

On 11 January 2016 the Group acquired a further 25% of the share capital of associate entity, Fern Ridge Produce Limited (Fern Ridge), increasing its shareholding to 75%. As part of the transaction, 2.12% of the shares were then sold to an employee of Fern Ridge and Scales entered into agreements with the remaining shareholders of Fern Ridge whereby those shareholders have an option to 'Put' their shares to Scales at a value based on a multiple of the Fern Ridge profits but with a minimum value equivalent to that paid to the selling shareholders. The obligations to acquire the shares under the Put options are included in other financial liabilities.

Details of the acquisition are as follows:

	Fair Value on Acquisition
Assets and liabilities acquired:	$'000
Assets	
Cash and bank balances	1,466
Trade and other receivables	1,126
Plant and equipment	20
Other intangible assets	32
Liabilities	
Trade and other payables	(2,463)
Current taxation	(180)
Net assets acquired	1
Less fair value of non-controlling interest	(1,880)
Goodwill on acquisition	5,702
Less fair value of existing interest in Fern Ridge	(1,943)
Consideration paid in cash	1,880
Less: Cash and bank balances acquired	(1,466)
Net cash outflow on acquisition	**414**

Goodwill arising on acquisition

Goodwill arose on the acquisition of Fern Ridge because the cost of acquisition included a control premium paid. In addition, the goodwill reflects the expected synergies and future market benefits expected to be obtained. These benefits are not recognised separately from goodwill as the expected future economic benefits arising cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

The additional interest in Fern Ridge was acquired as it is a profitable horticultural trading business which the Group believes fits strategically with its Horticulture operations.

Impact of the acquisition on the results of the Group

Fern Ridge contributed $1,498,000 to the Group profit after taxation for the year. Group revenue for the year includes $35,291,000 in respect of Fern Ridge.

F2. ACQUISITION OF SUBSIDIARIES (continued)

Longview Group Holdings Limited Group:

On 2 November 2016 the Group acquired 100% of the shares in Longview Group Holdings Limited (Longview). Longview and its wholly owned subsidiaries is a Hawke's Bay grower, packer and marketer of apples. Longview leases 76 hectares of orchard and bare land under long term leases.

Details of the acquisition are as follows:

	Carrying Value $'000	Fair Value Adjustment $'000	Fair Value on Acquisition $'000
Assets and liabilities acquired:			
Assets			
Trade and other receivables	818	-	818
Unharvested agricultural produce	375	-	375
Inventories	259	-	259
Prepayments	263	-	263
Property, plant and equipment	6,922	4,748	11,670
Other financial assets	9	-	9
Liabilities			
Trade and other payables	(729)	-	(729)
Current taxation	(388)	-	(388)
Deferred taxation	(126)	(1,108)	(1,234)
Net assets acquired			11,043
Goodwill on acquisition			5,201
Consideration			16,244
Less: Deferred purchase consideration			(244)
Net cash outflow on acquisition			**16,000**

Goodwill arising on acquisition

Goodwill arose on the acquisition of Longview because the cost of acquisition included immediate access to modern post-harvest (packhouse) capacity; extends Scales' total managed orchards by approximately 115 ha, of which 85 ha is planted; allows compelling cost synergies as the additional owned and leased orchard operations are integrated with the Mr Apple orchard operations; and gives Scales access to further grower suppliers, markets and customers. These benefits are not recognised separately from goodwill as the expected future economic benefits arising cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

Impact of the acquisition on the results of the Group

Due to the seasonal nature of the business, Longview recorded a loss of $583,000 for the two months since acquisition. Group revenue for the year includes $23,000 in respect of Longview.

Had the Longview acquisition been effective at 1 January 2016, the revenue of the Group would have been $396,459,000 and the profit for the year would have been $39,751,000.

F3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Joint Venture:	Principal Activity	Country of Incorporation	Holding 2016	Holding 2015	Balance Date
Profruit (2006) Limited	Juice Production & Sales	New Zealand	50%	50%	31 December

The Scales Corporation Limited Group share of the guarantee of Profruit (2006) Limited bank loan facilities is $240,000 (2015: $348,000).

Associate Company:					
Fern Ridge Produce Limited	Fruit & Produce Exporting	New Zealand	0%	50%	31 October

Effective 11 January 2016, Fern Ridge Produce Limited is a subsidiary company.

G. OTHER

IN THIS SECTION

This section includes the remaining information relating to Scales' financial statements which is required to comply with NZ IFRS.

G1. CAPITAL COMMITMENTS

	2016 $'000	2015 $'000
Commitments entered into in respect of apple trees as at balance date were	1,577	1,420
Commitments entered into in respect of other property, plant and equipment as at balance date were	150	233

G2. OPERATING LEASE COMMITMENTS

The Group as Lessee

Operating leases relate to coldstores, orchards, offices, vehicles and office equipment with lease terms of between 3 to 9 years, generally with options to extend for further periods. All operating lease contracts contain rental reviews that provide for reviews at regular intervals and in the event that the Group exercises its options to renew.

Non-cancellable operating lease commitments:		
Not later than one year	13,966	12,811
Later than one year and not later than five years	41,894	40,020
Later than five years	53,762	57,456

The Group as Lessor

Operating leases relate to coldstores owned by the Group with lease terms of between 3 to 9 years, generally with options to extend for further periods. All operating lease contracts contain review clauses that provide for reviews at regular intervals and in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Non-cancellable operating lease receivables:		
Not later than one year	1,520	1,101
Later than one year and not later than five years	3,668	3,640
Later than five years	2,796	3,223

G3. RELATED PARTY DISCLOSURES

Transactions with Related Parties

Certain Directors or senior management have relevant interests in companies with which Scales has transactions in the normal course of business. A number of Scales directors are also non-executive directors of other companies. Any transactions undertaken with these entities have been entered in the ordinary course of business on a third party arm's-length basis.

Key Management Personnel Remuneration

The compensation of the directors and executives, being the key management personnel of the Group, is as follows:

Short-term employee benefits	2,742	2,557
Post-employment benefits	85	99
	2,827	2,656

During 2016 146,028 (2015: nil) shares were issued to key management personnel in accordance with the senior executive share scheme described in note D2.

G3. RELATED PARTY DISCLOSURES (continued)

	2016 $'000	2015 $'000
Transactions with Equity Accounted Entities		
Revenue from sale of goods	1,128	4,683
Revenue from services	1,222	2,277
Dividends received	500	871
Materials and consumables purchases	-	153
Trade receivables at balance date	349	531
Advance at balance date	-	530

The advance was unsecured and repayable on demand.

G4. EVENTS OCCURRING AFTER BALANCE DATE

There were no events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

H. ADOPTION OF AMENDED FINANCIAL REPORTING STANDARDS AND RESULTING RESTATEMENT

IN THIS SECTION

This section summaries the effect of the change in accounting policy on the prior period disclosures resulting from the adoption of the amendments to NZ IAS 16 and NZ IAS 41.

H1. ADOPTION OF AMENDED FINANCIAL REPORTING STANDARDS AND RESULTING RESTATEMENT

The Group has applied the change in accounting policy retrospectively and restated the comparative periods to reverse the fair value measurement recognised during 2015 relating to apple trees, which are now accounted for in accordance with NZ IAS 16.

In accordance with the transitional provisions in the amendments to NZ IAS 16 and NZ IAS 41 the Group elected to use the fair value of the apple trees on 1 January 2015 as the deemed cost at that date. Depreciation on apple trees was recognised for the 2015 year using depreciation rates based on an economic life of 30 years.

The following tables summarise the effect of the change in accounting policy on the prior period presented in the Group's consolidated financial statements. The transitional provisions in the amendments to NZ IAS 16 and NZ IAS 41 do not require separate disclosure showing the effect on the 2016 year.

(a) Consolidated Statement of Financial Position

At 1 January 2015	Previously reported $'000	Adjustments $'000	Restated $'000
Equity			
Share capital	90,915	-	90,915
Other reserves	27,599	-	27,599
Retained earnings	27,816	-	27,816
Total Equity	**146,330**	**-**	**146,330**
Current assets			
Unharvested agricultural produce	-	13,471	13,471
Other	35,763	-	35,763
	35,763	13,471	49,234
Non-current assets			
Apple trees	31,368	(31,368)	0
Property, plant and equipment	145,982	17,897	163,879
Other	13,297	-	13,297
	190,647	(13,471)	177,176
Total Assets	**226,410**	**-**	**226,410**
Current liabilities	**31,734**	**-**	**31,734**
Non-current liabilities			
Deferred tax liabilities	17,873	-	17,873
Other	30,473	-	30,473
	48,346	-	48,346
Total liabilities	**80,080**	**-**	**80,080**
Net Assets	**146,330**	**-**	**146,330**

H1. ADOPTION OF AMENDED FINANCIAL REPORTING STANDARDS (continued)

At 31 December 2015	Previously reported $'000	Adjustments $'000	Restated $'000
Equity			
Share capital	90,755	-	90,755
Other reserves	27,732	-	27,732
Retained earnings	42,539	(3,041)	39,498
Total Equity	**161,026**	**(3,041)**	**157,985**
Current assets			
Unharvested agricultural produce	-	15,493	15,493
Other	51,269	-	51,269
	51,269	15,493	66,762
Non-current assets			
Apple trees	37,034	(37,034)	-
Property, plant and equipment	150,750	17,317	168,067
Other	17,402	-	17,402
	205,186	(19,717)	185,469
Total Assets	**256,455**	**(4,224)**	**252,231**
Current liabilities	43,459	-	43,459
Non-current liabilities			
Deferred tax liabilities	19,116	(1,183)	17,933
Other	32,854	-	32,854
	51,970	(1,183)	50,787
Total liabilities	**95,429**	**(1,183)**	**94,246**
Net Assets	**161,026**	**(3,041)**	**157,985**

(b) Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015	Previously reported $'000	Adjustments $'000	Restated $'000
Other income	4,977	(3,031)	1,946
Depreciation and amortisation	(10,138)	(1,193)	(11,331)
Income tax expense	14,338	(1,183)	13,155
Profit for the year	38,935	(3,041)	35,894
Total comprehensive income	**38,900**	**(3,041)**	**35,859**

The Group's basic and diluted earnings per share have changed from 27.9 cents to 25.7 cents for the year ended 31 December 2015.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SCALES CORPORATION LIMITED

Opinion

We have audited the consolidated financial statements of Scales Corporation Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 48 to 79, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of taxation advice, risk management advice, due diligence and other assurance services, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $2.5m.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Apple Trees	
Bearer plants (the apple trees) are measured at fair value. Apple trees were revalued at 31 December 2016 to $31.0 million as described in note C1. A revaluation gain of $11.8 million is recorded in other comprehensive income. Apple trees are valued on the basis of a discounted cash flow analysis of forecast income streams and costs from each orchard. The model uses a number of significant unobservable inputs, in particular: production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates.	Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the models. Our procedures included, amongst others: • Evaluating the Group's processes in respect of the independent valuation of the apple trees including its review of the valuation methodology and determination of the key valuation assumptions. • Engaging a Deloitte valuation specialist to consider whether the valuation method applied was reasonable.

On 1 January 2016, the Group adopted the amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 Agriculture which bring bearer plants (apple trees) into the scope of NZ IAS 16 so they are accounted for as property, plant and equipment. Disclosures about the impact of adopting these amendments are provided in note H1 and the 'About This Report' section of the financial statements.

We included the valuation of apple trees as a key audit matter due to the level of judgement involved in valuing the apple trees.

- Assessing the competence, objectivity and integrity of the Group's independent registered valuer. This included assessing the valuer's professional qualifications, experience and independence. It also included meeting with the valuer to understand the valuation process adopted and to identify and challenge the critical judgement areas in the valuations.
- Assessing the valuation methodology for consistency with the prior year and determining whether any significant changes to the methodology were appropriate.
- Challenging the reasonableness of the key assumptions by comparing them to the prior year's valuation, the Group's internal data and current market evidence. We focused on the assumptions relating to production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates.
  - We tested estimated production levels per hectare by comparing orchard hectares in production with prior year, adjusted for any changes in land area during the current year. We compared the production levels per hectare to external production data published by the Ministry for Primary Industries as well as internal production data for the previous season on a sample basis.
  - We tested the orchard gate returns on a sample basis by obtaining actual sales returns received during the previous year.
  - We challenged orchard costs by comparing orchard costs to the prior year valuation and to data published by the Ministry for Primary Industries.
  - We challenged the discount rates by comparing them with prior period discount rates and considering current market interest rates and the risks associated with the orchards.
- Checking the mechanical accuracy of the discounted cash flow models on a sample basis.
- Confirming that the Group has appropriately applied the amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 Agriculture in accordance with the transitional provisions.
- Assessing the adequacy of the Group's disclosures in respect of the valuations.

Valuation of Unharvested Agricultural Produce

Unharvested agricultural produce growing on bearer plants (i.e. fruit), is measured at fair value less costs to sell.

The Group's unharvested agricultural produce was valued at $18.4 million at balance date as described in note C2. A revaluation gain of $1.0 million is recorded in profit or loss.

Fair value less costs to sell is calculated by the Group using a discounted cash flow model. The model includes significant unobservable inputs and assumptions including, for each variety, the forecast production per hectare per annum by weight, sales prices, costs to harvest and sell, and risk-adjusting discount rates.

The risk-adjusting discount rates take into account the risk of unknown adverse events that may affect crop, harvest and/or market conditions.

The valuation of unharvested agricultural produce is a key audit matter due to the level of judgement required to determine the fair value less costs to sell.

Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the internal valuation model.

Our procedures included, amongst others:

- Holding discussions with management and considering market information to identify factors, including environmental or market risks, that would impact the current crop valuation.
- Engaging a Deloitte valuation specialist to consider whether the valuation method applied was appropriate and whether the risk-adjusting discount rates were reasonable based on market information and risks relating to the unharvested agricultural produce.
- Challenging the reasonableness of the key assumptions by comparing the forecast production, prices, and costs to harvest and sell for the current growing season to the approved budgets for each orchard.
- Assessing the historical accuracy of the Group's budget forecasts.

- Checking the mechanical accuracy of the discounted cash flow model.
- Assessing the adequacy of the Group's disclosures in respect of the valuation.

Valuation of Land and Buildings Land and buildings are carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed at least every 3 years. Land and buildings were revalued at 31 December 2016 to \$140.7 million as described in note C1. A revaluation gain of \$26.9 million is recorded in other comprehensive income. Revaluations are carried out by independent valuers. Estimating the fair values of land and buildings requires judgement and the calculations include both observable and non-observable inputs. Land and buildings were valued using a combination of comparative sales and income capitalisation methodologies, benchmarked against depreciated replacement cost. The significant inputs and assumptions adopted in the valuations are sale prices for similar properties, market rental rates, and capitalisation rates. The valuations include adjustments to observable data for similar properties to take into account property-specific attributes. We consider the valuation of Land and Buildings to be a key audit matter due to the judgment involved in determining their fair values.	Our procedures focused on the appropriateness of the valuation methodologies and the reasonableness of the underlying inputs and assumptions. Our procedures included, amongst others: • Evaluating the Group's processes in respect of the independent valuations, including its review of the valuation methodologies and assumptions and confirming, on a sample basis, the accuracy of the data provided to the valuers. • Assessing the competence, objectivity and integrity of the independent registered valuers. This included assessing their professional qualifications and experience and obtaining representation from them regarding their independence and the scope of their work. It also included meeting with the valuers to understand the valuation processes adopted, and to identify and challenge the critical judgements applied in the valuations. • Engaging a Deloitte valuation specialist to consider whether the valuation methods applied were appropriate. • Obtaining the key inputs and assumptions for each property, comparing these to previous valuations, and considering whether movements represented possible outliers. Where significant or unusual movements were identified, we discussed these with the valuer to identify the reason for the change and challenged whether the assumptions used were appropriate. • Considering whether the valuations and underlying assumptions were consistent with our knowledge of economic and other factors affecting the properties and determining whether adjustments to observable data were consistent with property-specific attributes such as condition and location. • Checking the mathematical accuracy of the valuations on a sample basis. • Assessing the adequacy of the Group's disclosures in respect of the valuations.

Other information

The directors are responsible for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Michael Wilkes, Partner
for Deloitte Limited
Christchurch, New Zealand
27 February, 2017

Corporate Governance

The Board of Scales Corporation Limited (Scales or the Company) is committed to ensuring that the Company meets best practice governance principles and maintains the highest ethical standards. The Board has agreed to regularly review and assess Scales' governance structures to ensure that they are consistent with best practice.

Scales complies with the corporate governance principles set out in the *NZX Corporate Governance Best Practice Code*. The Company also complies with the principles in the Financial Markets Authority's *Corporate Governance in New Zealand Principles and Guidelines* and with the corporate governance requirements of the *NZX Listing Rules*.

The full content of Scales' corporate governance policies, practices and procedures can be found in the Company's Corporate Governance Code, which is available in the "Corporate Governance" section of the Company's website, www.scalescorporation.co.nz. The code was reviewed and updated in December 2016 and is reviewed annually.

Responsibilities of the Board

The Board has overall responsibility for all decision making within Scales. In this regard the Board is responsible for laying solid foundations for the direction, management and oversight of the Company in the support of its objective to generate growth, corporate profit and shareholder gain. It has delegated day to day management of the Company to the Managing Director.

The main functions of the Board include to:

- Review and approve the strategic, business and financial plans prepared by management.
- Monitor performance against the strategic, business and financial plans.
- Appoint, provide counsel to and review the performance of the Managing Director.
- Approve major investments and divestments.
- Ensure ethical behaviour by the Company, Board, management and employees.
- Assess its own effectiveness in carrying out its functions.

The Board monitors these matters by receiving reports and plans from management, maintaining an active programme of divisional visits and through its annual work programme.

The Board uses committees to address certain issues that require detailed consideration by members of the Board who have specialist knowledge and experience. The Board retains ultimate responsibility for the functions of its committees and determines their responsibilities.

The Board has a statutory obligation to reserve responsibility for certain matters. It also deals directly with issues relating to the Company's mission, appointments to the Board, strategy, business and financial plans.

Details of the Board's role, composition, responsibilities, operation, policies and committees are provided in Scales' Corporate Governance Code, which is available in the "Corporate Governance" section of the Company's website.

Board of Directors

The Board is structured to add value. A profile of each of the Directors is on pages 42 - 43 of this report. The profiles include information on the year of appointment, skills, experience and background of each Director.

Jon Mayson is the Independent Chairman of Scales. Tim Goodacre is the Independent Deputy Chairman and Nick Harris, Mark Hutton and Alan Isaac are Independent Directors. Weiyong Wang is the CEO, and a Director, of China Resources Ng Fung Limited, holder of a 15.381% shareholding in the Company.

Andy Borland is the Managing Director of Scales.

The current mix of skills and experience is considered appropriate for the responsibilities and requirements of governing Scales.

Director independence is considered on a case by case basis and is monitored on an ongoing basis.

Board Committees

The Board has two formally constituted committees – the Audit and Risk Management Committee and the Nominations and Remuneration Committee. Each committee has a charter that sets out its mandate. These two charters can be found as two separate appendices within the Company's Corporate Governance Code.

Audit and Risk Management Committee

The primary functions of the Audit and Risk Management Committee are:

- To oversee the financial reporting process to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.
- To provide the Board with an independent assessment of the Company's financial position and accounting affairs.
- To keep under review the effectiveness of the Company's procedures for the identification, assessment and reporting of material risks.

Members of the committee are appointed by the Board and must comprise a majority of Independent Directors. The current members of the committee are Alan Isaac (Chairman), Nick Harris and Mark Hutton. All members of the Audit and Risk Management Committee are non-executive Directors. Alan Isaac is a former national chairman of KPMG.

Nominations and Remuneration Committee

The primary functions of the Nominations and Remuneration Committee are:

- To establish a clear framework for oversight and management of the Company's remuneration structure, policies, procedures and practices to ensure Scales' remuneration is fair and reasonable.
- Defining the roles and responsibilities of the Board and senior management.
- Reviewing and making recommendations on Board composition and succession.

Members of the committee are appointed by the Board and must comprise a majority of Independent Directors. The current members of the committee are Mark Hutton (Chairman), Tim Goodacre and Jon Mayson.

Attendance at Meetings

The table below sets out Director attendance at Board and Committee meetings during the year ended 31 December 2016. In total there were nine Board meetings, five Audit and Risk Management Committee meetings and one Nominations and Remuneration Committee meeting.

	Board	Audit and Risk Management Committee	Nominations and Remuneration Committee
Andy Borland	9	-	-
Tim Goodacre	8	-	1
Nick Harris	9	5	-
Mark Hutton	9	5	1
Alan Isaac	8	4	-
Jon Mayson	7	-	1

Code of Ethics

Scales' Board sets a framework of ethical standards for the Company via its **Code of Ethics**, which is contained in the Company's Corporate Governance Code. These standards are expected of Directors and employees of Scales and its subsidiaries.

The **Code of Ethics** covers a wide range of areas including the following: standards of behaviour; conflicts of interest; proper use of Company information and assets; gifts; delegated authorities; compliance with laws and policies; reporting concerns; and corporate opportunities.

The code is subject to annual review by the Board.

Auditor Independence

Oversight of the Company's external audit arrangements to safeguard the integrity of financial reporting is the responsibility of the Audit and Risk Management Committee. Scales maintains an **External Auditor Independence Policy** to ensure that audit independence is maintained, both in fact and appearance.

The policy covers the following areas:

- Approval of the external auditor.
- Provision of other assurance services by the external auditor.
- Pre-approval process for the provision of other assurance services.
- External auditor rotation.
- Hiring of staff from the external auditor.
- Relationships between the external auditor and the Company.

The role of the external auditor is to audit the financial statements of the Company in accordance with generally accepted auditing standards in New Zealand and to report on its findings to the Board and shareholders of the Company.

All services provided by the Company's external auditor are considered on a case by case basis by management and the Audit and Risk Management Committee to ensure there is no actual or perceived threat to independence in accordance with the policy.

The effectiveness, performance and independence of the external auditors are reviewed by the Audit and Risk Management Committee.

Deloitte Limited is the Company's current external auditor. Michael Wilkes is the current audit engagement partner, in his first year following a partner rotation after the 2015 audit. Michael was previously the audit engagement partner for the seven years up to 2012. Fees paid to Deloitte are included in note B2 of the notes to the financial statements.

The **External Auditor Independence Policy** is available in the "Corporate Governance" section of the Company's website.

Board Performance Evaluation

The Board is required to assess annually its effectiveness in carrying out its functions and responsibilities.

The Chairman of the Board is tasked with ensuring that rigorous, formal processes are in place for evaluating the performance of the Board, Board committees and individual Directors.

In addition to the regular review process, in 2016 the Board undertook the Institute of Directors BetterBoards evaluation. This provided the opportunity for a formal review of Board operations to ensure that best practice was being followed.

Directors' Remuneration

An in-depth explanation of Scales' remuneration philosophy, as well as details of Director remuneration are disclosed in detail in the Remuneration Report set out at page 88.

Market Disclosure and Shareholder Communications

Scales is committed to making timely and balanced disclosures and respecting the rights of shareholders. It achieves these commitments, and the promotion of investor confidence, by ensuring that trading in its shares takes place in an efficient, competitive and informed market.

The Company has in place procedures designed to ensure disclosure is made in a timely and balanced manner and that there is compliance with the NZX Listing Rules such that:

- All investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance.
- Company announcements are factual and presented in a clear and balanced way.

Accountability for compliance with disclosure obligations is with the Managing Director and Chief Financial Officer. Significant market announcements, including the preliminary announcement of the half year and full year results, the financial statements for those periods, and any advice of a change in earnings forecast are approved by the Board.

Directors consider at each Board meeting whether there is any material information which should be disclosed to the market.

A programme of clear, meaningful, timely and effective communications with shareholders is centred around a comprehensive set of information regarding Scales' operations and results being available on the Company's website together with the content of shareholder reports.

Shareholder meetings will be held at a time and location to encourage participation by shareholders. Annual meetings are currently held in Christchurch, reflecting the head office location for the Company, and the historical shareholder base.

Trading by Company Directors and Employees

The Board has implemented formal procedures to handle trading in the Company's securities by Directors, employees and advisors of the Company with the approval of the Chief Financial Officer being required before trading can occur. The full procedures are outlined in the **Securities Trading Policy and Guidelines**, which is contained in the Company's Corporate Governance Code.

The fundamental rule in the policy is that insider trading is prohibited at all times. The requirements of the policy are separate from, and in addition to, the legal prohibitions on insider trading in New Zealand.

Risk Management

The Board is responsible for ensuring that key business and financial risks are identified and that appropriate controls and procedures are in place to effectively manage those risks.

The Board has delegated responsibility to the Audit and Risk Management Committee to establish and regularly review the Company's risk management framework. As part of this framework the committee is tasked with identifying situations and circumstances in which the Company may be materially at risk, and initiating appropriate action through the Board or Managing Director.

In managing the Company's business risks, the Board approves and monitors policy and procedures in areas such as treasury management, financial performance, taxation and delegated authorities.

Scales has insurance policies in place covering most areas of risk to its assets and business and also operates a captive insurance subsidiary, Selacs Insurance. Selacs Insurance accesses reinsurance, for the benefit of the Company, in the London insurance market.

The Managing Director and Chief Financial Officer have provided the Board, through the Audit and Risk Management Committee, with assurances in connection with the financial statements, including that they have been founded on a sound system of internal controls and risk management and that the system is operating effectively in all material respects in relation to financial reporting risks.

Scales is currently working to align its Health & Safety policies to embed a best practice culture across the group. Health & Safety statistics and reports from all operating subsidiaries are reviewed at each Board meeting. This includes reporting on serious and minor incidents, near misses, hazards and training.

Independent Professional Advice

With the approval of the Audit and Risk Management Committee, Directors are entitled to seek independent professional advice on any issue related to the fulfillment of his or her duties, at the Company's expense.

Interests Register

The Board maintains an Interests Register. Any Director who is interested in a transaction with the Company must immediately disclose to the Board the nature, monetary value and extent of the interest. A Director who is interested in a transaction may attend and participate at a Board meeting at which the transaction is discussed, but may not be counted in the quorum for that meeting or vote in respect of the transaction, unless it is one in respect of which Directors are expressly required by the Companies Act 1993 to sign a certificate.

Particulars of entries made in the Interests Register for the year ended 31 December 2016 are included in the Director Disclosures section.

Directors' and Officers' Insurance

As permitted by the Company's Constitution and in accordance with Section 162 of the Companies Act 1993, the Company has indemnified all Directors and arranged Directors' and Officers' Liability Insurance which ensures that, to the extent permitted by law, Directors will incur no monetary loss as a result of actions undertaken as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines, which may be imposed in respect of breaches of the law.

Diversity

Scales recognises the value in diversity of thinking and skills, and seeks to ensure that the Board and workforce both comprise members reflecting diversity.

Scales recruits, promotes and compensates on the basis of merit, regardless of gender, ethnicity, religion, age, nationality, sexual orientation, union membership or political opinion. Scales requires that people in the workplace are treated with respect in accordance with the Company's philosophies of equal employment opportunities, and anti-harassment and discrimination policies.

During 2016 the Board welcomed Liz Muller, Scales' first participant in the Institute of Directors' Future Directors programme. Under the terms of the programme Liz will spend a year attending Scales' Board meetings and participating in Board discussion. The programme is designed to give talented young aspiring Directors exposure to a Company Board, whilst also giving the host Company a fresh perspective.

The gender composition of Scales' Directors, Senior Managers and Management Team (comprising the top two layers of management) was as follows:

	As at 31 December 2016		As at 31 December 2015	
Position	**Female**	**Male**	**Female**	**Male**
Director	0 (0%)	7 (100%)	0 (0%)	6 (100%)
Senior Managers	0 (0%)	6 (100%)	0 (0%)	7 (100%)
Management Team (excluding Senior Managers)	15 (40%)	22 (60%)	15 (40%)	22 (60%)

Remuneration Report

Introduction

This Remuneration Report outlines the Company's overall reward strategy for the year ended 31 December 2016 and provides detailed information on the remuneration arrangements in this period for the Directors of the Company, including the Managing Director, and other nominated executives.

The Board adopted the Company's Corporate Governance Code on 12 June 2014. Among other policies, the Corporate Governance Code includes the Company's Remuneration Policy, which may be amended from time to time and is reviewed at least once a year.

Remuneration Philosophy

The Nominations and Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages for Directors, the Managing Director and nominated executives. The primary objectives of the Remuneration Policy are to provide a competitive and flexible structure that reflects market practice, but is tailored to the specific circumstances of the Company and which reflects each person's duties and responsibilities so as to attract, motivate and retain people of the appropriate quality.

The Nominations and Remuneration Committee reviews market data on remuneration structure and quantum. The remuneration packages of the Managing Director and nominated executives are structured to include a Short Term Incentive Scheme (STI Scheme) that is directly linked to the overall financial and operational performance of the Company. The Managing Director and nominated executives may also be invited to participate in the Company's Long Term Incentive Scheme (LTI Scheme). The long-term benefits of the LTI Scheme are solely conditional upon the Company share price meeting certain performance criteria, details of which are outlined below.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director remuneration is separate and distinct from the remuneration of the Managing Director and other executives.

Components of Compensation – Non-executive Directors

The Board seeks to set aggregate remuneration for non-executive Directors at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

No remuneration is payable to Directors unless it is approved by the Company's shareholders. The NZX Listing Rules specify that shareholders can approve a per Director remuneration amount or an aggregate Directors' fee pool. At the Company's Annual Shareholders Meeting on 8 June 2016, the Company's shareholders approved an aggregate remuneration pool for non-executive Directors of $440,000 per annum (an increase of $40,000 per annum).

The aggregate remuneration paid to non-executive Directors and the manner in which it is apportioned amongst Directors is reviewed annually, with any proposed increase in the aggregate pool put to shareholders for approval at the Company's next Annual Shareholders Meeting. The Board reviews its fees to ensure the Company's non-executive Directors are fairly remunerated for their services, recognising the level of skill and experience required to fulfil the role, and to enable the Company to attract and retain talented non-executive Directors. The process involves benchmarking against a group of peer companies.

Non-executive Directors have no entitlement to any performance-based remuneration or participation in any share-based incentive schemes. This policy reflects the differences in the role of the non-executive Directors, which is to provide oversight and guide strategy, and the role of management, which is to operate the business and execute the Company's strategy. Non-executive Directors are encouraged to be shareholders, but are not required to hold shares in the Company.

Each non-executive Director receives a fee for services as a Director of the Company. An additional fee is also paid for being a member of the Board's Nominations and Remuneration Committee and Audit and Risk Management Committee. The payment of an additional fee recognises the additional time commitment required by Directors who serve on those committees. Directors are also entitled to be reimbursed for costs associated with carrying out their duties.

Fees payable to the non-executive Directors of the Company for the period 1 January 2016 to 31 December 2016 were as follows:

Director	Base fee	Fees for serving on Nominations and Remuneration Committee	Fees for serving on Audit and Risk Management Committee	Fees for serving on the Board of Selacs Insurance Limited
Jon Mayson	$104,625 (Chairman)	$5,375	$0	$0
Tim Goodacre (1)	$67,570 (Deputy Chairman)	$5,375	$0	$0
Alan Isaac	$59,125	$0	$16,125 (Chairman)	$10,750
Nick Harris	$59,125	$0	$5,375	$0
Mark Hutton (2)	$44,344	$4,031	$4,031	$0
Weiyong Wang	$30,858	$0	$0	$0

(1) Tim Goodacre also received fees of $10,500 in relation to consulting services completed for Mr Apple New Zealand Limited

(2) Direct Capital IV Management Limited, of which Mark Hutton is a Director, received $17,470 on account of services performed by Mark Hutton.

(a) Remuneration of Managing Director and executives

The number of employees of the Company (including former employees), not being a Director mentioned above, who received remuneration and other benefits in excess of $100,000 in the period 1 January 2016 to 31 December 2016 is set out in the remuneration bands detailed below:

Amount of Remuneration	Employees
$100,001 - $110,000	12
$110,001 - $120,000	12
$120,001 - $130,000	5
$130,001 - $140,000	10
$140,001 - $150,000	2
$150,001 - $160,000	3
$160,001 - $170,000	1
$170,001 - $180,000	2
$190,001 - $200,000	3
$200,001 - $210,000	3
$220,001 - $230,000	2
$230,001 - $240,000	1
$240,001 - $250,000	2
$280,001 - $290,000	3
$300,001 - $310,000	1
$320,001 - $330,000	1
$510,001 - $520,000	1

As set out in further detail below, the total remuneration and value of other benefits paid to the Managing Director (including under the STI Scheme and LTI Scheme detailed below) for the year ended 31 December 2016 was $851,155 (2015: $611,067).

(b) Components of Compensation – Managing Director and Other Nominated Executives

(i) Structure

The Company aims to reward the Managing Director and nominated executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, so as to:

- reward them for Company, business unit and individual performance against targets set by reference to appropriate benchmarks and key performance indicators;
- align their interests with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Remuneration consists of both fixed and variable remuneration components. The variable remuneration component comprises the STI Scheme and the LTI Scheme.

The proportion of fixed remuneration and variable remuneration is established for the Managing Director and for each nominated executive by the Board, following recommendations from the Nominations and Remuneration Committee and the Managing Director (in the case of the nominated executives).

The remuneration packages for the Managing Director and nominated executives are all subject to Board approval.

(ii) Fixed annual remuneration

Remuneration levels are reviewed annually to ensure that they are appropriate for the responsibility, qualifications and experience of the Managing Director and each nominated executive and are competitive with the market.

The Managing Director and nominated executives receive their fixed annual remuneration in cash and a limited range of prescribed fringe benefits such as superannuation, motor vehicle and health insurance. The total employment cost of any remuneration package, including fringe benefit tax, is taken into account in determining an employee's fixed annual remuneration.

For the financial year ended 31 December 2016, the Managing Director received $454,473 in fixed annual remuneration. By comparison, the Managing Director received $475,158 in fixed annual remuneration for the financial year ended 31 December 2015.

(iii) Variable remuneration – STI Scheme

The objective of the STI Scheme is to link the achievement of the annual financial and operational targets with the remuneration received by the executives charged with meeting those targets. The total potential remuneration under the STI Scheme is set at a level so as to provide sufficient incentive to the executive to achieve the targets such that the cost to the Company is flexible and in line with the trading outcome for the year.

Actual STI Scheme payments granted to the Managing Director and each nominated executive depend on the extent to which specific targets, set at the beginning of the year, are met. The targets may include a weighted combination of:

- at least 40% for meeting budget or target Underlying Net Profit after Tax for the Group; plus
- at least 40% for meeting budget or target Underlying Net Profit after Tax and/or Return on Capital Employed for the group or business unit; and
- any balance for strategic objectives; and other contributions.

The Nominations and Remuneration Committee consider the performance against the targets, and determine the amount, if any, to be allocated to the Managing Director and nominated executives. STI Scheme payments relating to the financial year ended 31 December 2016 are delivered as a taxable cash bonus and are payable on completion of the annual audited financial statements. It should be noted the level of remuneration detailed in this report for the Managing Director includes the bonus paid in early 2016 relating to the 2015 financial year. The total cost for all nominated executives of the STI Scheme for 2015 was $598,120 and the total accrual for 2016 is $787,942.

The STI Scheme payment for the Managing Director relating directly to the financial year ended 31 December 2016 has been approved for payment, with the Managing Director receiving $121,500 in STI Scheme payments compared to $121,500 in STI Scheme payments relating to the 2015 year.

STI Scheme payment values are set as a percentage of base cash remuneration, being 30% for the Managing Director and between 10% and 20% for other nominated executives for the financial year ended 31 December 2016. For the financial year ended 31 December 2016 there were 37 nominated executives in the STI Scheme, an increase of 10 from the 2015 year.

In addition to the STI Scheme the Board reserves the ability to pay ad hoc bonus payments to any employee, again directly related with the trading outcome.

(iv) Variable remuneration – LTI Scheme

The LTI Scheme has been designed to link reward with key performance indicators that drive sustainable growth in shareholder value over the long term. The objectives of the LTI Scheme are to:

- align the Managing Director and nominated executives' interests with those of shareholders;
- help provide a long term focus; and
- retain high calibre senior employees by providing an attractive equity-based incentive that builds an ownership of the Company mindset.

Under the LTI Scheme, the Managing Director and nominated executives are offered an interest free loan which is to be applied to acquire shares in the Company. Shares acquired under the LTI Scheme are held by a custodian and will only vest in the employee if he or she is still employed by the Company after three years from the date of acquisition. Once the shares vest, the employee still remains obligated to repay the outstanding balance of the loan. Alternatively, if an employee leaves employment before the expiry of the three year period, the Company is authorised to sell that employee's shares with the proceeds applied to repay the balance of the loan, with any deficit covered by the Company and any surplus retained by the Company.

Each employee's loan amount (which determines how many shares will be acquired) is set as a percentage of their base salary and selected employees will be offered a loan for this amount if the criteria set by the Board are met. For the first three years of the LTI Scheme, the criterion has been the achievement of a gross Total Shareholder Return of 12.5% over the reference share price. The reference share price for all new participants is set at the time of joining the scheme.

An offer may be made under the LTI Scheme to the Managing Director and nominated executives each financial year and is based on individual performance as assessed by the annual appraisal process. If an executive does not sustain a consistent level of high performance they will not be nominated for participation in the LTI Scheme. The Nominations and Remuneration Committee reviews all nominated executives, with participation in the LTI Scheme subject to final Board approval. The Board has retained the discretion to vary the applicable criteria for each offer under the LTI Scheme. Once the Board has fixed the criteria for a specific offer under the LTI Scheme, those performance hurdles cannot be varied in respect of that offer.

LTI Scheme loan amounts are set as a percentage of base cash remuneration, being 30% for the Managing Director and 10% for other nominated executives in respect of the financial year ended 31 December 2016. For the financial year ended 31 December 2016, there were 37 nominated executives in the LTI Scheme, an increase of 10 from the 2015 year.

During the financial year ended 31 December 2016, 314,064 shares were allocated under the LTI Scheme relating to the 2015 financial year with matching interest free loans of $524,487, an average of $1.67 per share. The Managing Director will receive 71,471 shares in the Company under the LTI Scheme relating to the financial year ended 31 December 2016, compared to 72,754 shares relating to the previous year. As at the end of the financial year ended 31 December 2016, the total balance owing under the loans advanced to the Managing Director under the LTI Scheme was $414,903.

Total shares allocated under the scheme as at the end of the financial year ended 31 December 2016 are as follows:

Alloction Date	Vesting Date	Number of Shares				
		Balance at start of year	Granted during the year	Vested during the year	Lapsed during the year	Balance at end of year
24 July 2014	24 July 2017	1,437,000	-	-	-	1,437,000
8 May 2015	8 May 2018	96,193	-	-	-	96,193
22 April 2016	22 April 2019	-	314,064	-	-	314,064
		1,533,193	314,064	-	-	1,847,257

The total cost of the LTI Scheme relating to the 2015 year share allocation was $759,595. Under accounting standard IFRS 2 *Share Based Payments*, the total cost of each annual allocation is spread across the three years of the vesting period from the date of issue. As a result, the total expense recorded in the Statement of Comprehensive Income for the financial year ended 31 December 2016 is $144,414, (being $342,414 expense less $198,000 that was accrued in financial year ended 31 December 2015). The total cost relating to each annual share allocation will be cumulative.

It should be noted the level of remuneration detailed in this report for the Managing Director for 2016 includes all of the pro rata portion of the accounting expense of the LTI Scheme to date. The actual cost relating to the 2016 LTI Scheme allocation will be included in the 2017 remuneration amount.

(v) Employee share ownership scheme

At the time of the Company's initial public offering, it established an employee share ownership scheme to facilitate an increase in the level of participation by employees as shareholders, which improves the alignment of interests between employees and shareholders. Under the scheme, each eligible employee was offered an interest free loan up to $5,000 to fund 50% of the subscription price for the shares which the employee wished to acquire in the Company. Employees are obliged to repay their loans when the shares are sold or when they leave the Company.

DIRECTOR DISCLOSURES

Directors

The following persons were Directors of Scales and its subsidiaries during the year ended 31 December 2016:

Scales Corporation Limited

Andy Borland	Executive Director
Tim Goodacre	Independent Deputy Chairman
Nick Harris	Independent Director
Mark Hutton	Independent Director
Alan Isaac	Independent Director
Jon Mayson	Independent Chairman
Weiyong Wang (appointed 23 June 2016)	Director

Fern Ridge Produce Limited

Russell Black (appointed 8 February 2002)
Andy Borland (appointed 18 January 2013)
Hamish Davis (appointed 9 December 2008)
Andrew van Workum (appointed 18 January 2013)
Peter Single (appointed 8 February 2002, ceased 25 January 2016)
Samuel Newbigin (appointed 8 February 2002, ceased 25 January 2016)

Geo.H.Scales Limited

Andy Borland
Steve Kennelly
Kent Ritchie

Liqueo Bulk Storage Limited

Andy Borland
Kevin Cahill

Longview Group Holdings Limited

Andy Borland (appointed 7 November 2016)
Andrew van Workum (appointed 7 November 2016)
Francis Caccioppoli (appointed 23 January 2012, ceased 7 November 2016)
Michael Caccioppoli (appointed 22 January 2016, ceased 7 November 2016)
Warwick Knibb (appointed 24 September 2007, ceased 7 November 2016)
Martin Stafford (appointed 23 January 2012, ceased 13 January 2016)
Wayne Yule (appointed 23 January 2012, ceased 7 November 2016)

Longview New Zealand Limited

Andy Borland (appointed 7 November 2016)
Andrew van Workum (appointed 7 November 2016)
Francis Caccioppoli (appointed 23 January 2012, ceased 7 November 2016)
Michael Caccioppoli (appointed 22 January 2016, ceased 7 November 2016)
Warwick Knibb (appointed 29 January 2009, ceased 7 November 2016)
Martin Stafford (appointed 23 January 2012, ceased 15 January 2016)
Wayne Yule (appointed 23 January 2012, ceased 7 November 2016)

Longview Packhouse Limited
Andy Borland (appointed 7 November 2016)
Andrew van Workum (appointed 7 November 2016)
Francis Caccioppoli (appointed 23 January 2012, ceased 7 November 2016)
Michael Caccioppoli (appointed 22 January 2016, ceased 7 November 2016)
Warwick Knibb (appointed 23 January 2012, ceased 7 November 2016)
Martin Stafford (appointed 23 January 2012, ceased 15 January 2016)
Wayne Yule (appointed 23 January 2012, ceased 7 November 2016)

Meateor Foods Limited
Andy Borland
Stephen Foote
Nick Harris

Meateor Foods Australia Pty Limited
Andy Borland
Tim Goodacre

Mr Apple New Zealand Limited
Andy Borland
Tim Goodacre
Mark Hutton

New Zealand Apple Limited
Andy Borland
Tim Goodacre

Polarcold Stores Limited
Andy Borland
Nick Harris
Mark Hutton
Jon Mayson

Scales Employees Limited
Andy Borland
Mark Hutton

Scales Holdings Limited
Andy Borland
Steve Kennelly
Kent Ritchie

Scales Logistics Limited
Andy Borland
Steve Kennelly
Kent Ritchie

Selacs Insurance Limited
Andy Borland
Alan Isaac
Steve Kennelly

Whakatu Coldstores Limited
Andy Borland
Stephen Foote

Interests Register

The following entries were made in the interests register of Scales and its subsidiaries during the period 1 January 2016 to 31 December 2016:

Indemnification and Insurance of Directors

As permitted by the company's Constitution and in accordance with Section 162 of the Companies Act 1993, the group has indemnified all Directors and arranged Directors' and Officers' liability insurance which ensures that, to the extent permitted by law, Directors will incur no monetary loss as a result of actions undertaken as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines, which may be imposed in respect of breaches of the law.

Share Dealings by Directors

Dealings by Directors in relevant interests in Scales' ordinary shares during the year ended 31 December 2016 as entered in the Interests Register of Scales are as follows:

Name of Director	No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
Mark Hutton	25,028,078	Indirect interest in holder, Direct Capital IV Investments Limited	Disposal	$2.60 per share	29 March 2016
Mark Hutton	552,377	Indirect interest in holder, Sirius Capital Investments Limited	Acquisition	Nil	30 March 2016
Andy Borland	72,754	Beneficial owner	Acquisition	$3.25 per share	24 May 2016

General Notice of Disclosure of Interest in the Interests Register

Details of Directors' general disclosures entered in the relevant interests register for Scales or its subsidiaries during the period 1 January 2016 to 31 December 2016 are as follows:

Scales Corporation Limited	
Andy Borland	
Rabobank New Zealand Limited	Appointed as Director
Rabobank Australia Limited	Appointed as Director
Rabo Australia Limited	Appointed as Director
Tim Goodacre	
Nagambie Healthcare	Appointed as Director
Nick Harris	
Hellers Limited	Ceased as Director
Alan Isaac	
Acurity Health Group Limited	Ceased to be a Director and Chairman
AMP Capital Property Trust Governance Committee	Ceased to be a Member
Department of Corrections Audit Committee	Ceased to be a Member and Chairman
Rakaia Finance Limited	Ceased as Director
Skellerup Holdings Limited	Appointed as Director
Jon Mayson	
C3 Limited	Ceased to be a Director and Chairman
Fronde Systems Group Limited	Ceased to be a Director and Chairman
Weiyong Wang	
China Resources Ng Fung Limited	Noted as CEO and Director

Relevant Interests

The table below records the Scales ordinary shares in which each Director had a relevant interest as at 31 December 2016.

Director	Number of Ordinary Shares – Beneficial	Number of Ordinary Shares – Non-Beneficial
Andy Borland	293,554	1,950,000
Tim Goodacre	15,625	Nil
Nick Harris	100,000	Nil
Mark Hutton	Nil	748,277
Alan Isaac	25,000	3,000
Jon Mayson	30,000	Nil
Weiyong Wang	Nil	Nil

Use of Company Information by Directors

No notices were received from Directors pursuant to section 145 of the Companies Act 1993 to use Company information, received in their capacity as Directors, which would otherwise not have been available to them.

Auditor's Fees

Deloitte Limited has continued to act as the auditor of Scales and its subsidiaries. The amount payable by Scales and its subsidiaries to Deloitte Limited as audit fees during the year ended 31 December 2016 was $187,300. The amount of fees payable to Deloitte for non-audit work during the year ended 31 December 2016 was $116,181.

SHAREHOLDER INFORMATION

Spread of Shares

Set out below are details of the spread of shareholders of Scales as at 31 January 2017:

	Number of Shareholders	Number of Shares Held	% of Shares Held
Under 1,999	691	681,040	0.49
2,000 to 4,999	949	2,927,599	2.09
5,000 to 9,999	741	4,877,713	3.49
10,000 to 49,999	801	14,614,481	10.46
50,000 to 99,999	69	4,444,999	3.18
Over 100,000	77	112,233,174	80.29

20 Largest Shareholders

Set out below are details of the 20 largest shareholders of Scales as at 31 January 2017:

Shareholder	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	43,545,565	31.15
China Resources Ng Fung Limited	21,500,000	15.38
Custodial Services Limited	7,275,237	5.20
FNZ Custodians Limited	5,015,842	3.58
Custodial Services Limited	2,788,701	1.99
Custodial Services Limited	2,523,041	1.80
Christopher Jon Jamieson & Morris Wayne Williams & Ian Gordon Bruce Davidson & Richard Henry Hill	2,507,500	1.79
John Grant Sinclair & Camille Elizabeth Sinclair	2,241,000	1.60
John Grant Sinclair	1,980,700	1.41
Andrew James Borland & Gina Dellabarca & Mark Andrew Bolton	1,950,000	1.39
Scales Employees Limited	1,847,257	1.32
Custodial Services Limited	1,808,253	1.29
Custodial Services Limited	1,683,817	1.20
Investment Custodial Services Limited	1,363,631	0.97
Custodial Services Limited	832,704	0.59
Woolf Fisher Trust Incorporated	680,000	0.48
New Zealand Depository Nominee Limited	613,529	0.43
MA Capital Limited	552,377	0.39
Alan Richard Millward & Alistair Jeffrey Nicholson	552,377	0.39
Sirius Capital Investments Limited	552,377	0.39
Total	**101,813,908**	**72.74**

Substantial Product Holders

Set out below are details of the substantial product holders of Scales as advised by notice to Scales at 31 December 2016. The number of shares shown below is as advised in the most recent substantial product holder notices given to Scales and may not be their holding as at 31 December 2016.

Name	Number of Shares	Class of Shares
China Resources Ng Fung Limited	21,500,000	Ordinary
Salt Funds Management Limited	8,115,930	Ordinary
Harbour Asset Management Limited	9,934,351	Ordinary

The total number of Scales Corporation Limited ordinary shares on issue as at 31 December 2016 was 139,779,006.

OTHER INFORMATION

NZX Waivers

Provision of Financial Assistance

NZX granted a waiver to Scales, dated 16 May 2016, from NZX Main Board Listing Rule 7.6.4(b)(iii) in respect of the provision of financial assistance to Andy Borland, Scales' Managing Director, for the purpose of the purchase of shares in the Company under the Scales Senior Executive Long Term Incentive Scheme. The waiver was granted on the conditions that:

(a) Scales' Chairman, on behalf of Scales' Board, certifies that with respect to Andy Borland's participation in, or entitlements under, the Scheme (excluding the IPO resolution):

(i) He did not have, and has not had, any influence over the Scheme including the criteria and the terms;

(ii) He did not, and will not, vote on any resolutions relating to the Scheme, including the criteria and the terms; and

(iii) He did not, and will not, participate in any Board discussions regarding the Scheme, including the criteria and terms;

(b) Andy Borland will not be a member of the Nominations and Remuneration Committee which decides eligibility to join the Scheme, as well as the amount, and terms of the financial assistance to be provided to participants under the Scheme;

(c) Andy Borland's participation under the Scheme has been, and will be, determined by the same criteria applying to all participants under the Scheme;

(d) Andy Borland, in his role as a Director of the custodian, will not receive any benefit when a participant participates in the Scheme.

Exercise of NZX Disciplinary Powers

NZX Limited did not exercise any of its powers under Listing Rule 5.4.2 in relation to Scales during the year ended 31 December 2016.

Donations

Donations of $13,843 were made by Scales during the year ended 31 December 2016.

GLOSSARY

~	Approximately
Capital Employed	Capital employed by our operations calculated as: Non current assets plus current assets (excluding any cash or cash equivalent balances) less current liabilities (excluding any overdraft or short term debt balances)
CAGR	Compounding Annual Growth Rate
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Fern Ridge	Fern Ridge Produce Limited
FMCG	Fast moving consumer goods
FOB	Free on Board, a term which means that the price for goods includes delivery at the seller's expense on to a vessel at a named port and no further. The buyer bears all costs thereafter (including costs of sea freight)
FY	Financial year
GAAP	Generally Accepted Accounting Practice
Group	Scales, its subsidiaries and joint venture
Ha	Hectare, a metric unit of measurement defined as 10,000 square metres
IPO	Initial Public Offering
Liqueo	Liqueo Bulk Storage Limited
Longview	Longview Group Holdings Limited, Longview New Zealand Limited and Longview Packhouse Limited
Meateor	Meateor Foods Limited
Mr Apple	Mr Apple New Zealand Limited
MT	Metric tonnes
Net Profit	Net profit after tax
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
Polarcold	Polarcold Stores Limited
Profruit	Profruit (2006) Limited
ROCE	Return on capital employed, which is calculated as EBIT divided by Capital Employed
Scales	Scales Corporation Limited
Scales Logistics	Scales Logistics Limited
Selacs Insurance	Selacs Insurance Limited
TCE	Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight
TEU	A twenty-foot equivalent unit is a unit of cargo capacity to describe container volumes
Whakatu Coldstores	Whakatu Coldstores Limited

DIRECTORY

Board of Directors

Jon Mayson (Chairman)
Tim Goodacre (Deputy Chairman)
Andy Borland (Managing Director)
Nick Harris
Mark Hutton
Alan Isaac
Weiyong Wang (appointed 23 June 2016)

Audit and Risk Management Committee

Alan Isaac (Chairman)
Nick Harris
Mark Hutton

Nominations and Remuneration Committee

Mark Hutton (Chairman)
Tim Goodacre
Jon Mayson

Registered Office

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Telephone

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Website

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Auditor

Deloitte Limited

Level 4
151 Cambridge Terrace
Christchurch 8013

Bankers

ANZ Bank New Zealand Limited

665 Colombo Street
Christchurch 8011

Rabobank New Zealand Limited

Level 23
157 Lambton Quay
Wellington 6011

Westpac New Zealand Limited

Level 2
2 Show Place
Christchurch 8024

Solicitors

Anthony Harper

Level 9
HSBC Tower
62 Worcester Boulevard
Christchurch 8011

Chapman Tripp

23 Albert Street
Auckland 1140

Corporate Adviser

Maher & Associates

17 Albert Street
Auckland 1010

Share Registry

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road
Takapuna
North Shore City
Auckland 0622

Scales

growing New Zealand