

Scales
growing New Zealand



— 2017 —
INTERIM REPORT

National coverage.

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An aerial photograph of a cargo ship's deck, showing a grid of colorful shipping containers in shades of red, blue, white, and orange. The ship is moving through the ocean, leaving a dark wake behind it. The text "Global presence." is overlaid in the upper right quadrant.

Global presence.

Directors' Report

The Board is pleased to report a net profit after tax of \$29.0 million for the six months ended 30 June 2017. Whilst this was down 14 per cent on the record 2016 half year net profit, this result highlights the resilience of the group, and the efforts of the Scales team, to achieve this level of profitability in light of a challenging growing season.



Tim Goodacre
Chairman



Andy Borland
Managing Director

Highlights

- Combined Mr Apple export volumes consistent with last year noting like-for-like production is only 5% less than 2016 record volumes.
- Acquisition of the business and assets of OceanAir Limited, and acquisition of OceanAir Freight Pty Limited (together OceanAir) completed 1 August 2017 adds Auckland and Melbourne ports as well as further perishable goods expertise to our growing freight forwarding and logistics business.
- Storage & Logistics and Food Ingredients divisions on track for year-end targets.
- Petfood ingredients sales volumes up 8 per cent on 1H16.

Hawke's Bay experienced double the average rainfall in two months of the growing season as well as being impacted by ex-Cyclone Cook. This inclement weather resulted in increased on-orchard costs, such as higher spray costs, storage costs and additional labour in picking and thinning. These costs were incurred to ensure that in a very difficult season customers' expectations were met as far as practicable in terms of quality and volume. Accordingly, EBITDA of \$48.4 million and EBIT of \$42.2 million are down 11 per cent and 12 per cent respectively on the 30 June 2016 record results.

During the period, we have continued to strengthen our relationship with our key strategic shareholder, China Resources Ng Fung Limited (China Resources Ng Fung). Volumes sold through this channel have increased and we believe that additional benefits will continue to flow over the forthcoming periods.

Our balance sheet continues to show a strong financial position. Net tangible assets per share as at 30 June 2017 were \$1.56 compared to \$1.28 as at 30 June 2016, and the ratio of net debt to equity was 29 per cent, comparable to the 30 June 2016 position of 27 per cent. Average net debt (being the average of the 30 June and 31 December net debt balances) was \$51.8 million, an increase of \$17.6 million on average net debt as at 30 June 2016. This increase was primarily due to the purchase of Longview Group Holdings Limited (Longview) in November 2016.

On 1 August 2017 we announced the purchase of OceanAir, a freight forwarding business with offices in Auckland and Melbourne. We are delighted to welcome Russell Pope and his team into the Scales family and believe the business will provide excellent synergetic opportunities for Scales Logistics as we broaden our relationships with existing customers. We continue to investigate other suitable acquisitions for the group.

Divisions

Horticulture

In addition to maintaining export volumes (supported by approximately 200,000 TCEs from the Longview acquisition), Mr Apple achieved a packout of 76%. This is in line with long-term averages and illustrates the resilience of our orcharding expertise. Producing this volume in such a challenging growing year is an excellent result and is testament to the skill of everyone in the business.

The packhouse facilities provided by the acquisition of Longview last year proved invaluable during our packing period, significantly increasing efficiencies in our post-harvest infrastructure. We are delighted with the addition, and integration, of this business.

Premium apple variety volumes were in line with the prior year, with high colour varieties influenced by inclement weather. We delivered a slight increase in Traditional variety volumes.

We continued to invest in the Mr Apple products, packaging and brand, particularly in the Middle East and Asia, and are continuing to innovate to meet emerging needs, including the launch of new brands and varieties, such as Dazzle®. This, together with the strength of our relationship with China Resources Ng Fung, continues to deliver sales growth in these key markets.

Storage & Logistics

The Storage & Logistics division performed well. The coldstores saw steady volumes and were aided by a turnaround in industry conditions.

This, together with the addition of OceanAir, is expected to provide the division with revenue opportunities in the second half of the year and position it for longer term growth in freight forwarding activities.

Food Ingredients

Meateor Foods Limited (Meateor) continued its strong growth with an 8% increase in volumes sold, to 12,900 metric tonnes. Whilst margins were impacted by product mix and industry competition, Meateor continues to add value to its products and seek out new protein sources.

Difficult growing conditions saw a reduction in the supply of conventional apple volumes for processing for our joint venture partner, Profruit (2006) Limited (Profruit). Resultant processing volumes were down around 16% on the first half of 2016. However, continued diversification of markets and customers has mitigated increased competition in existing export markets.

We expect the Food Ingredients division to continue to deliver positively to our full year results.

Outlook

Notwithstanding the challenging conditions that we have experienced over the last 6 months, we remain positive in our outlook for the Scales group.

Hard work, resilience, flexibility and investment in technology and relationships have resulted in a strong performance in the Horticulture division despite difficult weather. We will continue to invest in new orchard varieties and we will continue to develop the Mr Apple brand in the key Middle East and Asia markets.

We are reaping the benefit of investment and patience in our Storage & Logistics division. And our Food Ingredients division, while facing more challenging market conditions for sourcing specific products, delivered impressive increases in volumes and sales, highlighting the strength of our key customer relationships.

Our strong balance sheet will allow us to seize organic growth opportunities and acquisitions that meet our investment criteria.

As ever, the Board would like to acknowledge the Scales team. We noted in our 2016 Annual Report that we are extremely lucky to have a stable, experienced and hard-working team of people and this continues to be the case. We send a heartfelt thank you to each individual who contributed to another successful period in Scales' history.



Tim Goodacre
Chairman



Andy Borland
Managing Director



FINANCIAL STATEMENTS



INDEPENDENT REVIEW REPORT TO THE SHAREHOLDERS OF SCALES CORPORATION LIMITED

We have reviewed the condensed consolidated interim financial statements of Scales Corporation Limited and its subsidiaries ('the Group') which comprise the condensed consolidated statement of financial position as at 30 June 2017, and the condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information on pages 8 to 17.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review 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 engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibilities

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. As the auditor of Scales Corporation Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as auditor, we have no relationship with or interests in Scales Corporation Limited or its subsidiaries. These services have not impaired our independence as auditor of the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 June 2017 and its financial performance and cash flows for the period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

Deloitte Limited

Chartered Accountants
23 August 2017
Christchurch, New Zealand

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2017



| | NOTE | UNAUDITED | | AUDITED |
|---|----------|----------------------------------|----------------------------------|-----------------------------------|
| | | Six months ended 30 June 2017 | Six months ended 30 June 2016 | Year ended 31 December 2016 |
| | | \$000's | \$000's | \$000's |
| Revenue | | 216,748 | 209,518 | 373,927 |
| Cost of sales | | (141,271) | (126,368) | (257,038) |
| | | 75,477 | 83,150 | 116,889 |
| Share of profit of entity accounted for using the equity method | | 393 | 666 | 1,612 |
| Administration and operating expenses | | (28,070) | (29,337) | (50,197) |
| Other income | | 833 | 50 | 275 |
| Other losses | | (227) | (342) | (1,258) |
| EBITDA | | 48,406 | 54,187 | 67,321 |
| Depreciation and amortisation | | (6,222) | (6,013) | (12,099) |
| EBIT | | 42,184 | 48,174 | 55,222 |
| Finance revenue | | 34 | 41 | 167 |
| Finance cost | | (1,679) | (1,454) | (2,533) |
| PROFIT BEFORE INCOME TAX EXPENSE | | 40,539 | 46,761 | 52,856 |
| Income tax expense | | (11,506) | (12,985) | (14,678) |
| PROFIT FOR THE PERIOD | | 29,033 | 33,776 | 38,178 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Gain on cash flow hedges | | 6,868 | 13,229 | 9,382 |
| Income tax relating to cash flow hedges | | (1,923) | (3,704) | (2,627) |
| | | 4,945 | 9,525 | 6,755 |
| 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 FOR THE PERIOD | | 4,945 | 9,525 | 39,183 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 33,978 | 43,301 | 77,361 |
| Profit for the period attributable to: | | | | |
| Equity holders of the Company | | 28,899 | 33,603 | 37,772 |
| Non-controlling Interests | | 134 | 173 | 406 |
| | | 29,033 | 33,776 | 38,178 |
| Total comprehensive income for the period attributable to: | | | | |
| Equity holders of the Company | | 33,762 | 42,998 | 76,955 |
| Non-controlling Interests | | 216 | 303 | 406 |
| | | 33,978 | 43,301 | 77,361 |
| EARNINGS PER SHARE: | | | | |
| Basic and diluted earnings per share (cents) | 5 | 20.7 | 24.0 | 27.0 |

The notes to the financial statements on pages 13 to 17 form part of and should be read in conjunction with this statement.

| NOTE | Share Capital | Revaluation Reserve | Hedging Reserve | Equity-settled Employee Benefits Reserve | Retained Earnings | Attributable to Owners of the Company | Non - controlling Interests | Total |
|---|---------------|---------------------|-----------------|--|-------------------|---------------------------------------|-----------------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Unaudited | | | | | | | | |
| Six months ended 30 June 2017 | | | | | | | | |
| Balance at 1 January 2017 | 89,748 | 57,717 | 8,965 | 503 | 57,251 | 214,184 | 406 | 214,590 |
| Profit for the period | - | - | - | - | 28,899 | 28,899 | 134 | 29,033 |
| Other comprehensive income for the period | - | - | 4,863 | - | - | 4,863 | 82 | 4,945 |
| Total comprehensive income for the period | - | - | 4,863 | - | 28,899 | 33,762 | 216 | 33,978 |
| Recognition of share-based payments | - | - | - | 203 | - | 203 | - | 203 |
| Treasury stock sold | 106 | - | - | - | - | 106 | - | 106 |
| Dividends paid | 4 | - | - | - | - | - | (406) | (406) |
| Dividends declared | 4 | - | - | - | (13,811) | (13,811) | - | (13,811) |
| Balance at 30 June 2017 | 89,854 | 57,717 | 13,828 | 706 | 72,339 | 234,444 | 216 | 234,660 |
| Six months ended 30 June 2016 | | | | | | | | |
| Balance at 1 January 2016 | 90,755 | 25,289 | 2,210 | 233 | 39,498 | 157,985 | - | 157,985 |
| Profit for the period | - | - | - | - | 33,603 | 33,603 | 173 | 33,776 |
| Other comprehensive income for the period | - | - | 9,395 | - | - | 9,395 | 130 | 9,525 |
| Total comprehensive income for the period | - | - | 9,395 | - | 33,603 | 42,998 | 303 | 43,301 |
| Recognition of share-based payments | - | - | - | 113 | - | 113 | - | 113 |
| Treasury stock purchased | (525) | - | - | - | - | (525) | - | (525) |
| Dividends declared | 4 | - | - | - | (9,528) | (9,528) | - | (9,528) |
| Balance at 30 June 2016 | 90,230 | 25,289 | 11,605 | 346 | 63,573 | 191,043 | 303 | 191,346 |
| Audited | | | | | | | | |
| Year ended 31 December 2016 | | | | | | | | |
| Balance at 1 January 2016 | 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 | 76,995 | 406 | 77,361 |
| Recognition of share-based payments | - | - | - | 270 | - | 270 | - | 270 |
| Treasury stock purchased | (1,007) | - | - | - | - | (1,007) | - | (1,007) |
| Dividends paid | 4 | - | - | - | (8,974) | (8,974) | - | (8,974) |
| Dividends declared | 4 | - | - | - | (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 13 to 17 form part of and should be read in conjunction with this statement.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2017



| | NOTE | UNAUDITED 30 June 2017 \$000's | UNAUDITED 30 June 2016 \$000's | AUDITED 31 December 2016 \$000's |
|---|------|--------------------------------------|--------------------------------------|---|
| EQUITY | | | | |
| Share capital | | 89,854 | 90,230 | 89,748 |
| Revaluation reserve | | 57,717 | 25,289 | 57,717 |
| Hedging reserve | | 13,828 | 11,605 | 8,965 |
| Equity-settled employee benefits reserve | | 706 | 346 | 503 |
| Retained earnings | | 72,339 | 63,573 | 57,251 |
| Equity attributable to Scales Corporation Limited Shareholders | | 234,444 | 191,043 | 214,184 |
| Equity attributable to Non-controlling Interests | | 216 | 303 | 406 |
| TOTAL EQUITY | | 234,660 | 191,346 | 214,590 |
| Represented By: | | | | |
| CURRENT ASSETS | | | | |
| Cash and bank balances | | 15,124 | 6,801 | 6,355 |
| Trade and other receivables | | 66,232 | 53,572 | 17,529 |
| Other financial assets | 7 | 8,565 | 8,925 | 8,464 |
| Agricultural produce | | 64,750 | 63,833 | 18,433 |
| Inventories | | 22,398 | 19,521 | 16,365 |
| Prepayments | | 2,268 | 2,367 | 3,655 |
| TOTAL CURRENT ASSETS | | 179,337 | 155,019 | 70,801 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | | 225,862 | 167,393 | 226,652 |
| Investments accounted for using the equity method | | 4,024 | 3,685 | 4,131 |
| Goodwill | | 16,222 | 11,021 | 16,222 |
| Other financial assets | 7 | 15,716 | 14,170 | 11,561 |
| Computer software | | 674 | 1,162 | 745 |
| TOTAL NON-CURRENT ASSETS | | 262,498 | 197,431 | 259,311 |
| TOTAL ASSETS | | 441,835 | 352,450 | 330,112 |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | | 63,178 | 55,313 | 22,047 |
| Dividend declared | 4 | 14,006 | 9,528 | 11,045 |
| Borrowings | 10 | 44,000 | 29,000 | 11,000 |
| Current tax liabilities | | 16,076 | 14,445 | 5,009 |
| Other financial liabilities | 7 | 1,715 | 1,503 | 3,357 |
| TOTAL CURRENT LIABILITIES | | 138,975 | 109,789 | 52,458 |
| NON-CURRENT LIABILITIES | | | | |
| Borrowings | 10 | 40,000 | 30,000 | 30,000 |
| Deferred tax liabilities | | 24,821 | 16,507 | 28,187 |
| Other financial liabilities | 7 | 3,379 | 4,808 | 4,877 |
| TOTAL NON-CURRENT LIABILITIES | | 68,200 | 51,315 | 63,064 |
| TOTAL LIABILITIES | | 207,175 | 161,104 | 115,522 |
| NET ASSETS | | 234,660 | 191,346 | 214,590 |

The notes to the financial statements on pages 13 to 17 form part of and should be read in conjunction with this statement.

| | UNAUDITED | | AUDITED |
|---|----------------------------------|----------------------------------|-----------------------------------|
| | Six months ended 30 June 2017 | Six months ended 30 June 2016 | Year ended 31 December 2016 |
| | \$000's | \$000's | \$000's |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Receipts from customers | 168,068 | 171,753 | 373,223 |
| Dividends received | 500 | - | 525 |
| Interest received | 34 | 41 | 167 |
| | 168,602 | 171,794 | 373,915 |
| <i>Cash was disbursed to:</i> | | | |
| Payments to suppliers and employees | (178,993) | (176,063) | (315,413) |
| Interest paid | (1,679) | (1,454) | (2,533) |
| Income tax paid | (5,728) | (8,277) | (14,627) |
| | (186,400) | (185,794) | (332,573) |
| NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES | (17,798) | (14,000) | 41,342 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Advances repaid | 81 | 856 | 1,100 |
| Sale of property, plant and equipment and computer software | 66 | 93 | 216 |
| | 147 | 949 | 1,316 |
| <i>Cash was applied to:</i> | | | |
| Net cash outflow on acquisition of businesses | - | (414) | (16,414) |
| Purchase of computer software | (147) | (609) | (445) |
| Purchase of shares in unlisted companies | - | (49) | (53) |
| Purchase of property, plant and equipment | (5,283) | (6,856) | (19,715) |
| | (5,430) | (7,928) | (36,627) |
| NET CASH USED IN INVESTING ACTIVITIES | (5,283) | (6,979) | (35,311) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Proceeds from borrowings | 43,000 | 29,000 | 11,000 |
| Treasury stock sold | 106 | - | - |
| | 43,106 | 29,000 | 11,000 |
| <i>Cash was applied to:</i> | | | |
| Dividends paid | (10,850) | (14,527) | (23,501) |
| Dividends paid to non-controlling interest | (406) | - | - |
| Shares purchased | - | (525) | (1,007) |
| | (11,256) | (15,052) | (24,508) |
| NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES | 31,850 | 13,948 | (13,508) |
| NET INCREASE (DECREASE) IN NET CASH | 8,769 | (7,031) | (7,477) |
| Cash and cash equivalents at the beginning of the period | 6,355 | 13,832 | 13,832 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 15,124 | 6,801 | 6,355 |
| <i>Represented by:</i> | | | |
| Cash and bank balances | 15,124 | 6,801 | 6,355 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 15,124 | 6,801 | 6,355 |

The notes to the financial statements on pages 13 to 17 form part of and should be read in conjunction with this statement.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2017 (continued)



| | UNAUDITED | | AUDITED |
|--|----------------------------------|----------------------------------|-----------------------------------|
| | Six months ended 30 June 2017 | Six months ended 30 June 2016 | Year ended 31 December 2016 |
| | \$000's | \$000's | \$000's |
| NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES | | | |
| Reconciliation of profit for the period to net cash generated by operating activities: | | | |
| Profit for the period | 29,033 | 33,776 | 38,178 |
| <i>Add non-cash items:</i> | | | |
| Hedge ineffectiveness on cash flow hedges | (832) | 343 | 1,258 |
| Deferred tax | (5,289) | (5,130) | 36 |
| Depreciation and amortisation | 6,222 | 6,013 | 12,099 |
| Share of equity accounted results | (393) | (666) | (1,612) |
| Share-based payments | 203 | 113 | 270 |
| Change in gross liability on Fern Ridge Produce Limited put option | 224 | - | - |
| <i>Add items classified as investing and financing activities:</i> | | | |
| Working capital amounts included in acquisition of businesses | - | (1,517) | (1,162) |
| Dividends received from equity accounted company | 500 | - | 500 |
| Loss (gain) on disposal of property, plant and equipment | 3 | (50) | (50) |
| <i>Changes in net assets and liabilities:</i> | | | |
| Trade and other receivables | (48,704) | (38,891) | (2,848) |
| Agricultural produce | (46,317) | (46,438) | (2,940) |
| Inventories | (6,033) | (5,207) | (2,051) |
| Prepayments | 1,387 | 599 | (689) |
| Trade and other payables | 41,131 | 33,037 | (229) |
| Current tax | 11,067 | 10,018 | 582 |
| NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES | (17,798) | (14,000) | 41,342 |

For and on behalf of the Board, who authorised the issue of these interim financial statements on 23 August 2017.

Tim Goodacre
Chairman

Andy Borland
Managing Director

The notes to the financial statements on pages 13 to 17 form part of and should be read in conjunction with this statement.

1. GENERAL INFORMATION

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.

2. FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice ("GAAP"). They comply with the New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34) "Interim Financial Reporting" and International Accounting Standard 34 (IAS 34) "Interim Financial Reporting", as applicable for profit orientated entities. Significant accounting policies applied by the Group during the period have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

The same accounting policies and estimates are applied in the interim financial statements as were applied in the financial statements for the year ended 31 December 2016. These financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report for the year ended 31 December 2016. The information is presented in thousands of New Zealand dollars unless otherwise stated.

3. SEASONALITY OF BUSINESS

All business segments are subject to seasonal fluctuation. The apple crop has been picked and packed and the export programme is well under way in the first half year. Higher volumes are processed through the food ingredients plants in the first half of the year due to the seasonal nature of the meat industry and there is greater utilisation of storage and logistics services over the first half year as seasonal products are stored and then shipped to export markets.

At 30 June the harvested crop held in inventory is valued at fair value less estimated costs to sell. At 31 December the unharvested crop is at fair value less estimated costs to sell. Both the harvested crop at 30 June and the unharvested crop at 31 December are included in agricultural produce.

4. DIVIDENDS

During the six months ended 30 June 2017 the Directors paid an interim dividend of 8.0 cents per share and resolved to pay a final dividend of 10.0 cents per share in respect of the year ended 31 December 2016. This final dividend was paid on 7 July 2017.

During the six months ended 30 June 2016 the Directors paid an interim dividend of 6.5 cents per share and a special dividend of 4.0 cents per share in respect of the year ended 31 December 2015. These dividends were paid on 20 January 2016. Also during this period the Directors resolved to pay a final dividend of 6.5 cents per share in respect of the year ended 31 December 2015. This dividend was paid on 8 July 2016.

Dividends totalling \$23.501 million were paid during the year ended 31 December 2016. All dividends were fully imputed.

5. EARNINGS PER SHARE

| | UNAUDITED | | AUDITED |
|--|----------------------------------|----------------------------------|-----------------------------------|
| | Six months ended 30 June 2017 | Six months ended 30 June 2016 | Year ended 31 December 2016 |
| | \$000's | \$000's | \$000's |
| Profit attributable to equity holders of the Company - used in the calculation of earnings per share | 28,899 | 33,603 | 37,772 |
| Basic and diluted earnings per share | | | |
| Weighted average number of ordinary shares | 139,882,718 | 139,779,006 | 139,779,006 |
| Basic and diluted earnings per share (cents) | 20.7 | 24.0 | 27.0 |

6. SEGMENT INFORMATION

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's | Horticulture \$000's | Storage & Logistics \$000's | Other \$000's | Eliminations \$000's | Total \$000's |
|---|--------------------------------|-------------------------|-----------------------------------|------------------|-------------------------|------------------|
| Six months ended 30 June 2017 | | | | | | |
| Total segment revenue | 33,978 | 131,470 | 67,551 | 1,934 | (18,185) | 216,748 |
| Inter-segment revenue | - | - | (16,594) | (1,591) | 18,185 | - |
| Revenue from external customers | 33,978 | 131,470 | 50,957 | 343 | - | 216,748 |
| Segment profit (loss) before income tax | 3,930 | 32,824 | 8,813 | (5,028) | - | 40,539 |
| Segment assets | 29,850 | 296,415 | 117,977 | (2,407) | - | 441,835 |
| Segment liabilities | 6,762 | 96,651 | 21,105 | 82,657 | - | 207,175 |
| Six months ended 30 June 2016 | | | | | | |
| Total segment revenue | 31,064 | 130,697 | 65,487 | 1,648 | (19,378) | 209,518 |
| Inter-segment revenue | - | - | (18,109) | (1,269) | 19,378 | - |
| Revenue from external customers | 31,064 | 130,697 | 47,378 | 379 | - | 209,518 |
| Segment profit (loss) before income tax | 4,615 | 35,997 | 9,242 | (3,093) | - | 46,761 |
| Segment assets | 27,485 | 234,460 | 96,628 | (6,123) | - | 352,450 |
| Segment liabilities | 5,659 | 80,974 | 22,992 | 51,479 | - | 161,104 |
| Year ended 31 December 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 |
| Segment profit (loss) before income tax | 8,514 | 39,125 | 10,867 | (5,650) | - | 52,856 |
| Segment assets | 27,327 | 185,423 | 109,971 | 7,391 | - | 330,112 |
| Segment liabilities | 6,325 | 44,781 | 20,777 | 43,639 | - | 115,522 |

7. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

| | UNAUDITED | | AUDITED |
|--|---------------|---------------|------------------|
| | 30 June 2017 | 30 June 2016 | 31 December 2016 |
| | \$000's | \$000's | \$000's |
| Current financial assets: | | | |
| <i>At fair value:</i> | | | |
| Foreign currency derivative instruments | 8,542 | 8,846 | 8,409 |
| <i>At amortised cost:</i> | | | |
| Advances to other entities | 23 | 79 | 55 |
| | 8,565 | 8,925 | 8,464 |
| Non-current financial assets: | | | |
| <i>At fair value:</i> | | | |
| Foreign currency derivative instruments | 15,406 | 13,633 | 11,231 |
| Shares in unlisted companies | 206 | 193 | 206 |
| <i>At amortised cost:</i> | | | |
| Employee loans | 104 | 344 | 124 |
| | 15,716 | 14,170 | 11,561 |
| Current financial liabilities at fair value: | | | |
| Foreign currency derivative instruments | 496 | 530 | 2,047 |
| Interest rate swap contracts and forward rate agreements | 150 | 33 | 371 |
| Fern Ridge Produce Limited put option | 1,069 | 940 | 939 |
| | 1,715 | 1,503 | 3,357 |
| Non-current financial liabilities at fair value: | | | |
| Foreign currency derivative instruments | 1,310 | 2,070 | 3,111 |
| Interest rate swap contracts and forward rate agreements | 1,005 | 1,798 | 826 |
| Fern Ridge Produce Limited put option | 1,064 | 940 | 940 |
| | 3,379 | 4,808 | 4,877 |

8. RELATED PARTY DISCLOSURES

(a) Transactions with Related Parties

Certain Directors and 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.

(b) Key Management Personnel Remuneration

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

| | UNAUDITED | | AUDITED |
|------------------------------|----------------------------------|----------------------------------|-----------------------------------|
| | Six months ended 30 June 2017 | Six months ended 30 June 2016 | Year ended 31 December 2016 |
| | \$000's | \$000's | \$000's |
| Short-term employee benefits | 1,885 | 1,756 | 2,742 |
| Post-employment benefits | 53 | 54 | 85 |
| | 1,938 | 1,810 | 2,827 |

(c) Transactions with Equity Accounted Entity

| | UNAUDITED | | AUDITED |
|-----------------------------------|----------------------------------|----------------------------------|-----------------------------------|
| | Six months ended 30 June 2017 | Six months ended 30 June 2016 | Year ended 31 December 2016 |
| | \$000's | \$000's | \$000's |
| Revenue from sale of goods | 700 | 859 | 1,128 |
| Revenue from services | 351 | - | 1,222 |
| Dividends received | 500 | - | 500 |
| Trade receivables at balance date | 4 | - | 349 |

9. CAPITAL COMMITMENTS

Commitments entered into as at reporting date were:

| | UNAUDITED | | AUDITED |
|---------------------|--------------|--------------|---------------------|
| | 30 June 2017 | 30 June 2016 | 31 December 2016 |
| | \$000's | \$000's | \$000's |
| Biological assets | 1,389 | 2,047 | 1,577 |
| Plant and equipment | - | 231 | 150 |
| | 1,389 | 2,278 | 1,727 |

10. BORROWINGS

The level of term and seasonal borrowings has increased largely due to the acquisition of Longview, a Hawke's Bay grower, packer and marketer of apples, on 2 November 2016. Total seasonal borrowing facilities as at 30 June 2017 were \$50.0 million.

11. EVENTS OCCURRING AFTER THE REPORTING DATE

On 1 August 2017 Scales Corporation Limited through its wholly owned subsidiary Scales Logistics Limited completed the purchase of the assets and the business of OceanAir Limited and all of the shares in OceanAir Freight Pty Limited (collectively OceanAir), a freight forwarding business with offices in Auckland and Melbourne.

OceanAir specialises in sea and air freight for perishable produce, specifically kiwifruit and avocado exports, which account for about 50% of its activity.

There have been no other significant post reporting date events.

DIRECTORY

Board of Directors

Tim Goodacre (Chairman)
 Andy Borland (Managing Director)
 Nick Harris
 Mark Hutton
 Alan Isaac
 Weiyong Wang

Audit and Risk Management Committee

Alan Isaac (Chairman)
 Nick Harris
 Mark Hutton

Nominations and Remuneration Committee

Mark Hutton (Chairman)
 Tim Goodacre

Registered Office

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Postal Address

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Telephone

64-3-379-7720

Website

www.scalescorporation.co.nz

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 Advisor

Maier & Associates

17 Albert Street
 Auckland 1010

Share Registry

Computershare Investor Services Limited

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



