Scales Corporation Limited

Annual Report 2019

Scales
growing New Zealand

> “Our people are our most important asset and we want to ensure we are investing in them in the best way possible.”

Welcome to our Annual Report for our 108th year of trading.

2019 was another exciting year of change for Scales. We said farewell to Polarcold but welcomed Alliance Group Limited (Alliance) as a joint venture partner in our Meateor New Zealand (Meateor NZ) business. That, together with the integration of Shelby Foods (Shelby), in which we acquired a 60 per cent stake in December 2018, provides Scales with an excellent base on which to grow.

The completion of the sale of Polarcold finalised our strategic divestment programme and we remain committed to growing your diversified agribusiness portfolio by reinvesting the proceeds from the sale of the businesses in a number of focus areas – organic growth opportunities, acquisition and investment.

It has also been a busy year from an operational point of view, with strategic progress in each division as well as with our Sustainability programme and human resource initiatives. Our people are our most important asset and we want to ensure we are investing in them in the best way possible.

As we go to print, the impact on Scales from the COVID-19 outbreak remains uncertain. Whilst the situation is rapidly evolving, we continue to have confidence in the actions of authorities to both curb the spread of the disease as well as to facilitate the flow of food products. Scales will keep investors updated in the usual manner as information comes to light.

Horticulture

Vertically integrated apple grower, packer & marketer

Apple marketer

Logistics

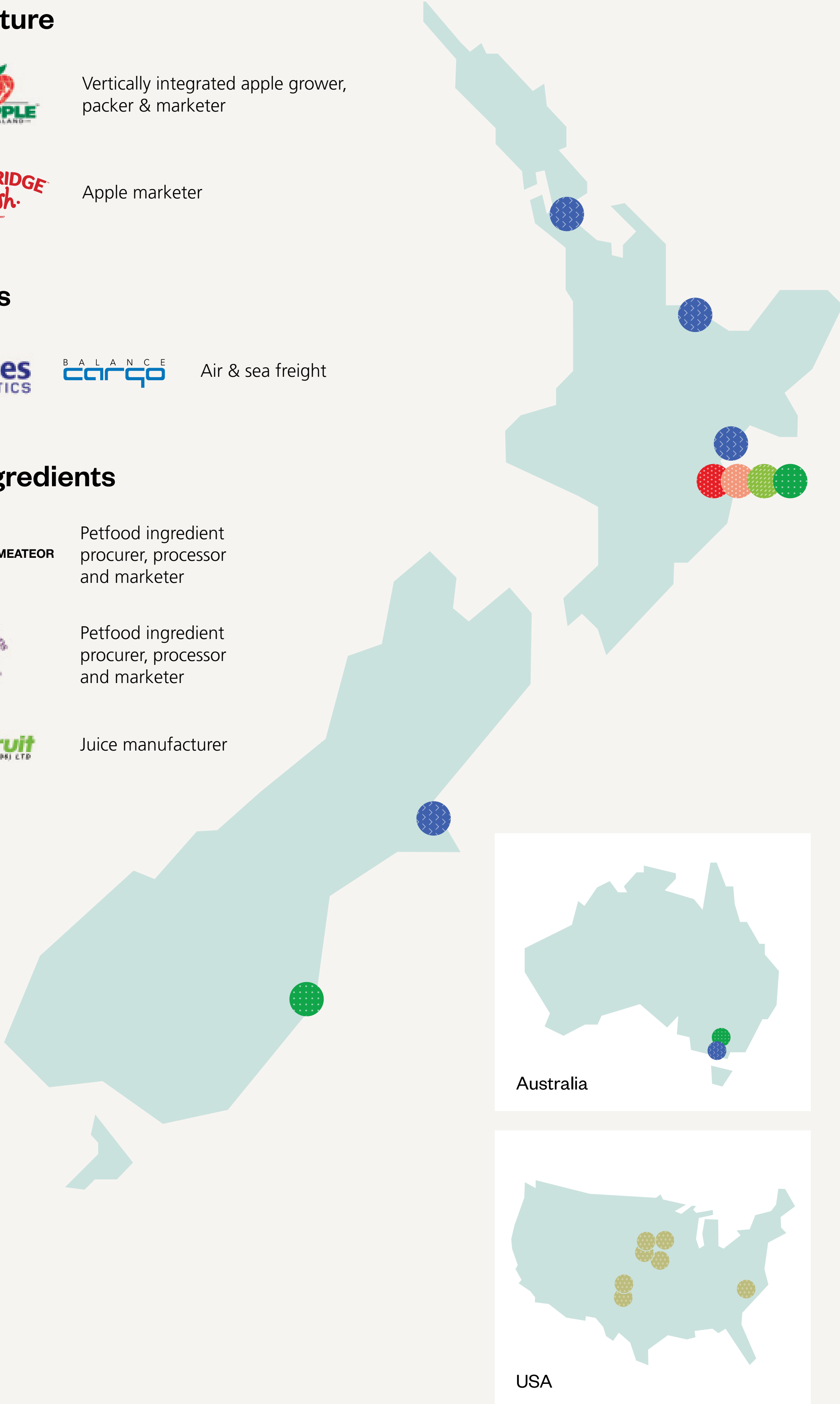
Air & sea freight

Food Ingredients

Petfood ingredient procurer, processor and marketer

Petfood ingredient procurer, processor and marketer

Juice manufacturer



Strength in Numbers

Reported Profit for the Year

$121.6m

(2018: $45.5 million)

Underlying EBITDA

$52.7m

(2018: $67.1 million)

Underlying Net Profit

$36.4m

(2018: $35.8 million)

5.95m

TCEs

of all apples exported, up 2%

84.2c

earnings per share (EPS)

(2018: 32.2 cents)

Second carbon footprint certification

process undertaken, a reduction of

-4%

$104.9m

Net Cash

(2018: $62.2 million Net Debt)

39,438

TEUs shipped

up 12%

New record Revenue

$484.6m

20% increase on 2018

3.82m

TCEs
of own-grown apples exported, in line with 2018

Dividends declared of

19.0c

per share
(2018: 18.5 cents)

6.2m

litres of juice sold, in line with 2018

Return on Capital Employed
(ROCE)

16%

(2018: 17 per cent)

110,970

metric tonnes
of petfood ingredients sold[1], up 282%

46

NZQA qualified Health & Safety representatives

Second staff engagement survey carried out,
engagement increased to

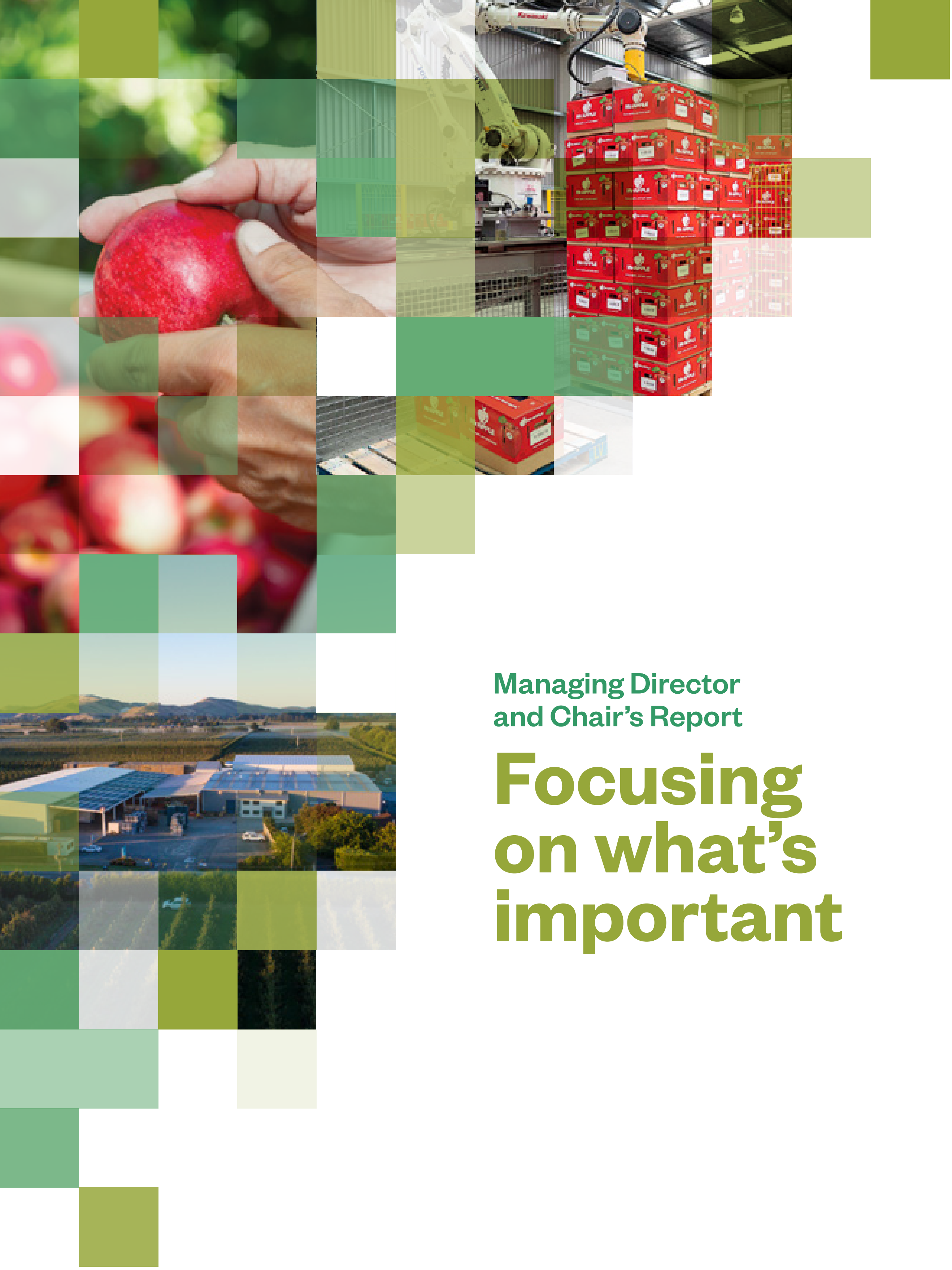
61%

up 5%

85+

people involved in training schemes, apprenticeships or company-supported studies

[1] Includes 100 per cent of volumes from Meateor NZ; i.e. total volumes controlled directly and indirectly by the Meateor Group.



Managing Director and Chair's Report

Focusing on what's important

Andy Borland and Tim Goodacre

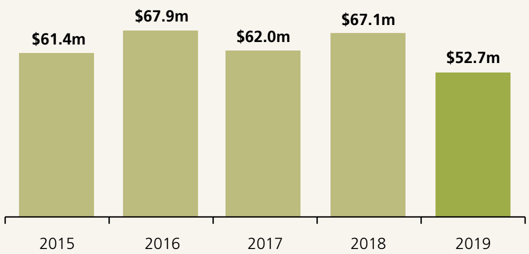
On behalf of the Board, we are delighted to present Scales' Annual Report for the year ended 31 December 2019, a year in which Scales reported a record Net Profit of $121.6 million. This was another solid result that was, in part, supported by gains on the sale of Polarcold and part-sale of Meateor's NZ business.

The Group also reported record Revenue of $484.6 million, a 20 per cent increase on 2018 due mainly to the acquisition of Shelby. We produced a strong Underlying result, with Underlying Net Profit of $36.4 million, 2 per cent ahead of 2018. This was a pleasing outcome in light of mixed regional market returns for the Horticulture division and a one-off inventory valuation adjustment affecting the Meateor Group.

	2019 $'000	2018 $'000	Variance
Revenue	484,609	402,542	20%
EBITDA	79,853	51,744	54%
Underlying EBITDA	52,699	67,057	-21%
Net Profit	121,577	45,499	167%
Underlying Net Profit	36,399	35,814	2%

The graphs below demonstrate Scales' 5 year performance history at an Underlying EBITDA and Underlying NPAT level. The historic results have not been adjusted for businesses that have been divested or acquired; accordingly the graphs reflect the changes in the Group structure, particularly over 2018 and 2019.

Underlying EBITDA



Underlying NPAT

Directors and management use non-GAAP (Underlying) profit measures when discussing financial performance in this document. The Directors and management believe that these profit measures provide meaningful information that is helpful to investors and give them a better understanding of a company's financial performance when presented in addition to GAAP (NZ IFRS) information. Underlying profit measures are used internally to evaluate performance of our divisions, establish operational goals and to allocate resources. They also represent some of the profit measures required by Scales' debt providers. Non-GAAP (Underlying) 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 entities report and should not be viewed in isolation or considered as a substitute for GAAP (NZ IFRS) measures reported by Scales. Underlying profit measures were not subject to an audit or review.

A full reconciliation between NZ IFRS and Underlying measures is provided on pages 38 and 39.

Underlying measures for 2019 do not include Polarcold operational earnings and only include 50 per cent of Meateor NZ from 1 April 2019 (2018: includes Polarcold and Meateor NZ for the full year, Liqueo up to 1 August 2018 and Shelby from 20 December 2018).

All of the above measures (both NZ IFRS and Underlying) are presented before the deduction of Fern Ridge and Shelby non-controlling interests in NPAT of $3.6 million (2018: $0.4 million).

Change in Accounting Policy

Scales has applied NZ IFRS 16 *Leases*, effective from 1 January 2019. NZ IFRS 16 eliminates the distinction between operating and finance lease accounting for lessees. A right of use asset and a lease liability are recognised for most leases.

The adoption of NZ IFRS 16 resulted in a $1.0 million reduction in net profit after tax. Scales adopted the modified retrospective (full simplified) approach, whereby prior period comparatives are not restated, and the right of use asset is assumed to be equal to the lease liability on the date of transition (1 January 2019).

Shareholder Returns

We continue to be mindful of the long term returns to our shareholders. Those shareholders who invested in our IPO in July 2014 have achieved a 227 per cent return[1] on funds invested to the end of February 2020. By comparison, an investment in the S&P NZX50 would have delivered a 117 per cent return on funds invested over the same period.

Meateor NZ

As noted in last year's Annual Report, Scales entered into a 50/50 petfood joint venture with Alliance, a leading farmer co-operative and supplier of raw materials to the petfood sector, on 1 April 2019. Accordingly, Meateor's New Zealand petfood business and operations were transferred to a joint venture that is being run by Scales and Alliance.

We are pleased to advise that the joint venture is progressing well and it has identified a number of organic growth opportunities that it is working to develop. This transaction, together with the acquisition of Shelby, have provided our Food Ingredients division with a base for continued growth and set it on the journey to becoming a $25 million EBITDA division.

Fiona Sharp, John Sainsbury and Tim Harty, Meateor.

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.

Scales' Long Term Goal

To generate a long-run average 15 per cent ROCE across the portfolio.

Strategic Update

Having completed our divestment programme, our investment attention is now focused on 3 main areas:

1. Organic growth opportunities that strengthen our existing business units.
2. Acquisition growth opportunities that strengthen our existing business units.
3. Investment opportunities in new sectors where Scales can add value or enhance an existing business through its capital resources, agribusiness experience and/or export network, especially in China.

We are considering a number of opportunities and examples of this include:

- A significant post-harvest investment in the construction of a modern coolstore adjacent to Mr Apple's Whakatu packhouse. The coolstore will take advantage of modern technologies and be designed to deliver improved labour efficiency. The coolstore, which is expected to be operational during the 2021 season, will achieve improved centralisation of Mr Apple's post-harvest operations giving rise to reduced truck movements – lowering Mr Apple's carbon footprint as well as improving transportation efficiencies.
- Continued orchard redevelopment and Recognised Seasonal Employer (RSE) accommodation investment at Mr Apple.
- A number of organic growth opportunities in the Food Ingredients division, both domestically and offshore, to further extend the range of added value petfoods that this division makes available to its customers.
- Acquisition opportunities, including opportunities that strengthen existing business units as well as opportunities in new agribusiness sectors.

[1] Calculated as the difference between the closing share price on 29 February 2020 plus all net dividends paid (a total of $0.915 per share) and the IPO listing price of $1.60.

Specific Strategic Targets

Division	Target	Status
Group	**Sustainability**	***Significant Progress***
	• Further develop and evolve our reporting and measuring of key sustainability aspects affecting Scales' businesses. • Develop best-in-class sustainability reporting. • Demonstrate improvements in sustainability.	Second carbon footprint certification process completed, with a 4 per cent reduction in emissions. Energy Efficiency and Conservation Authority (EECA) audit undertaken at 2 Mr Apple sites. Second group-wide staff engagement survey undertaken. A Mr Apple Environmental Plan developed.
	Financial and operational	***Good Progress***
	• Maintain financial returns in line with, or above, industry returns. • Continue to seek acquisitive and organic growth to expand the business.	Strong return achieved. Divestments settled, a joint venture entered into and integration of a 60 per cent acquisition achieved. A large number of opportunities reviewed.
	Shareholder returns	***On Track***
	• Continue to provide shareholders with an attractive yield on dividends. • Deliver capital gains and shareholder liquidity through careful strategic execution.	Interim dividend maintained at 9.5 cents per share. Continued to maintain Group ROCE above long-run target of 15 per cent.
Horticulture	**Brand and Intellectual Property development**	***Good Progress***
	• Continue to develop the Mr Apple brand, particularly within our key markets of Asia and the Middle East.	Renewed marketing activations and increased in-market branding initiatives. Increased presence in China.
	Volumes	***Excellent Progress***
	• Reach 4 million TCEs of our own grown apples.	3.82 million TCEs exported, 6 per cent ahead of forecast
	Sales	***Excellent Progress***
	• Continue to increase market penetration into Asia through services company Primary Collaboration New Zealand (PCNZ) and strategic partner China Resources Ng Fung Limited (China Resources Ng Fung).	Notable increase in volumes to Asia and Middle East markets. Increase in retail and e-commerce channel sales.
	Plant Varieties	***Significant Progress***
	• Acquire new Plant Variety Rights (PVRs) to meet emerging needs. • Redevelop lower-performing orchards and varieties into higher value crops.	Marketing for Posy™ commenced mid-year and initial shipment of Posy™ airfreighted in February 2020. 44 hectares of orchard redeveloped during winter 2019.
Food Ingredients	**Increase scale and expand offering**	***On Track***
	• Review strategic initiatives and consider organic and acquisition opportunities to increase divisional scale.	Integration of Shelby and joint venture with Alliance adding diversification of geographical exposure and range of protein options. Further growth opportunities being investigated.
Logistics	**Rebalance our portfolio of businesses**	***Completed***
	• Review investment in the division in line with Strategy Refresh.	Storage businesses (Polarcold and Liqueo) sold.
	Expand logistics offerings	***On Track***
	• Develop scale to utilise the expertise and capacity within the team.	Increased throughput of ocean freight volumes. Increased resource in Christchurch (warehouse) and Melbourne (sales).

Sustainability

Since starting our sustainability journey, and appointing a Group Health & Safety, Compliance and Sustainability Manager, we have made significant progress and continue to make incremental improvements in a wide range of areas. We know that meeting our sustainability goals will not be a sprint to the finish but, instead, it will be a journey where we are smart about what we do and how we do it, in the most sustainable way possible.

Climate change is a concern for us, as it is for all global businesses. During 2020 we will start to look at this in more depth, consulting the science world for a factual baseline from which we can assess the potential implications for our businesses. We look forward to updating you on our progress next year.

A full update is provided in the Sustainability section.

Scales' Team

Our results reflect the hard work, skill and positive manner of each and every staff member within the Scales Group. We are very conscious that our business is all about our people and a period of change can be unsettling. We are extremely pleased by all our teams' performances during the year and are delighted by the enthusiasm and commitment that Shelby and Alliance have brought to Scales.

As in previous years, health and safety continues to be top of mind for us and is a leading agenda item in our Board meetings. In addition, we have focussed on leadership, bullying & harassment and mental health awareness this year. We are proud of the people-first culture within the Scales group and we want to ensure that every staff member is happy to come to work.

The Board would like to thank every member of staff for the energy and commitment that is brought by them.

Appropriately Incentivising our Team

Scales' management team continues to be accountable for implementing the strategies as directed by the Board. Accordingly, we continue to have a strong incentive based remuneration scheme aligned to positive personal performance and retaining and developing excellent team members over the long term.

Shorter term incentives are balanced alongside long term business interests and the incentive based remuneration schemes are an important part of the Board and Managing Director's objectives. Scales' remuneration philosophy and a breakdown of executive remuneration is outlined in more detail in the Corporate Governance Statement.

Mr Apple orchard managers.

Group Financials

Summary

We are pleased to present record Revenue and record Net Profit of $484.6 million and $121.6 million respectively, for the year ended 31 December 2019. The 20 per cent increase in Revenue was due mainly to the acquisition of Shelby whilst Net Profit for the year included gains on the sale of Polarcold and from the part-sale of Meateor's NZ business.

The individual performance of each division is discussed further in the Divisional Overview section.

Income Statement

	2019 $'000	2018 $'000
Revenue	484,609	402,542
Underlying EBITDA	**52,699**	**67,057**
Underlying EBIT	**42,453**	**52,274**
Underlying Net Profit	**36,399**	**35,814**
After tax impact of:		
Non-cash, NZ IFRS and other adjustments	85,178	9,685
Net Profit	**121,577**	**45,499**
Capital employed	280,625	261,339
Return on capital employed	16%	17%

Capital Management

ROCE continues to be an important performance metric for 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 and make 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.

Group capital employed increased by $19.3 million in 2019, principally due to an increase in Horticulture capital employed. This was as a result of the orchard redevelopment and RSE accommodation capital expenditure, and also reflects the positive revaluation of land, buildings and apple trees. We expect ROCE to remain at or about 2019 levels until redeveloped orchard reaches maturity from 2022 onwards.

	2019	2018
ROCE		
Horticulture	17%	21%
Food Ingredients[1]	16%	32%
Logistics[2]	70%	107%
Group	**16%**	**17%**
Target	*15%*	*15%*

Scales' Net Tangible Assets as at 31 December 2019 were $2.19 per share (31 December 2018: $1.43 per share)[3].

Scales' basic earnings per share for the year ended 31 December 2019 was 84.2 cents per share (32.2 cents per share in the year ended 31 December 2018).

Financing

Average net cash for the year was $82.0 million, a difference of $152.7 million compared to average net debt during 2018 of $70.7 million. The movement from Average Net Debt to Average Net Cash reflects proceeds received from divestments, partially offset by investments in capital expenditure.

Hedging Strategy

As an exporter, we continue to have significant exposure to foreign exchange movements. This is most prevalent in Mr Apple, but our Food Ingredients and Logistics divisions are also affected. We also have exposure to movements in interest rates, both on borrowings and deposits.

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

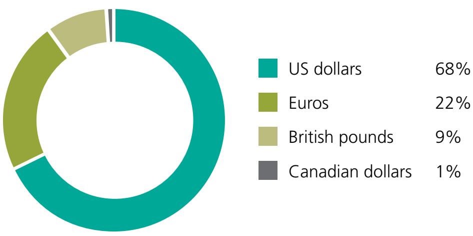
Under this policy we may take foreign exchange cover for Mr Apple for up to 48 months using a variety of foreign exchange instruments (including options and forward contracts). Scales maintains a blend of instruments. In addition, Scales attempts to manage the cover levels for seasonal and market variations for future years.

We continue to have a natural hedge covering some of our US dollar exposure as international shipping is payable in US dollars. We take cover on the remaining expected net US dollar, Euro, British pound and Canadian dollar exposures.

Generally Food Ingredients and Logistics cover foreign currency exposures once contracted.

Foreign currency

In 2019, Mr Apple's net foreign currency exposures were as shown below:



The average conversion rate of Mr Apple's main foreign currency exposures since 2016 were:

	2019	2018	2017	2016
USD	.6664	.6790	.6858	.6866
EUR	.5663	.5806	.5846	.5909
GBP	.4658	.4839	.4535	.4740
CAD	.8650	.8582	.8625	.8614

[1] Food Ingredients ROCE in 2018 excludes Shelby.
[2] Logistics ROCE for 2018 and 2019 is based only on Scales Logistics.
[3] Based on the weighted average number of ordinary shares.

The hedging position for Mr Apple's main foreign currency exposures, as at 6 March 2020, was:

		2020	2021	2022	2023	2024
USD	% cover of expected exposure	80%	47%	33%	17%	8%
	Average rate of cover	.6580	.6652	.6496	.6529	.6302
EUR	% cover of expected exposure	95%	78%	75%	50%	50%
	Average rate of cover	.5646	.5460	.5335	.5396	.5278

Interest rates

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. As at 31 December 2019 our NZ dollar term debt was 100% covered by interest rate swaps. We funded the US dollar investment in Shelby via a US dollar term loan to provide a hedge on the investment.

Dividend

A final 2018 fully imputed cash dividend of 9.5 cents per share (a gross amount of 13.2 cents per share) was paid on 5 July 2019. Together with an interim dividend of 9.5 cents per share (a gross amount of 13.2 cents per share) that was paid on 18 January 2019, this brought the annual dividends for 2018 to a total of 19.0 cents per share (a gross amount of 26.4 cents per share).

A fully imputed interim 2019 cash dividend of 9.5 cents per share (a gross amount of 13.2 cents per share) was declared in December 2019 and paid on 17 January 2020. Our expectation is to declare a final fully imputed cash dividend in respect of 2019 in May 2020, for payment in July 2020. 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, but we remain committed to the current annual dividend level of no less than 19 cents cash per share whilst the Group holds net cash.

Capital Expenditure

Total 2019 capital expenditure of $15.7 million was slightly lower than 2018 ($16.3 million), partially due to the divestments of Polarcold and Liqueo. Excluding discontinued operations, operational capital expenditure was slightly below 2018, whilst an additional $5.0 million growth capital expenditure was spent in 2019, reflecting:

- Orchard redevelopment at Mr Apple - approximately 44 hectares at a cost of $5.4 million.
- RSE accommodation upgrade at Mr Apple (an investment of $4.8 million), to improve housing availability as well as the standard of living for RSE workers.

	2019 $'000	2018 $'000
Operational capital expenditure		
Horticulture	3,139	3,520
Food Ingredients	191	518
Logistics	470	322
Other	10	178
Total operational capital expenditure	**3,811**	**4,538**
Growth capital expenditure		
Horticulture	11,863	6,476
Food Ingredients	-	-
Logistics	-	388
Total growth capital expenditure	**11,863**	**6,864**
Other capital expenditure		
Discontinued Operations (Polarcold & Liqueo)	-	4,924
Total capital expenditure	**15,674**	**16,326**

Outlook

2019 was a year of change for Scales and marked the completion of the divestment phase of our Strategy Refresh. Scales remains committed to reinvesting the proceeds from divestments and is making significant progress in developing both organic growth opportunities as well as reviewing and progressing a number of prospective acquisition opportunities.

As we go to print, the impact on Scales from the COVID-19 outbreak remains uncertain. Whilst the situation is rapidly evolving, we continue to have confidence in the actions of authorities to both curb the spread of the disease as well as to facilitate the flow of food products. Scales will keep investors updated in the usual manner as information comes to light.

Within the Horticulture division, the 2020 apple harvest is underway and early indications suggest a crop in line with forecast. Horticulture is budgeted to continue its investment in orchard redevelopment and RSE accommodation in 2020, together with construction of its new coolstore later in the year.

In Food Ingredients, both domestic and offshore organic growth opportunities are being developed and we expect a further improvement in performance from this division this year. Scales Logistics also expects to meet its trading targets.

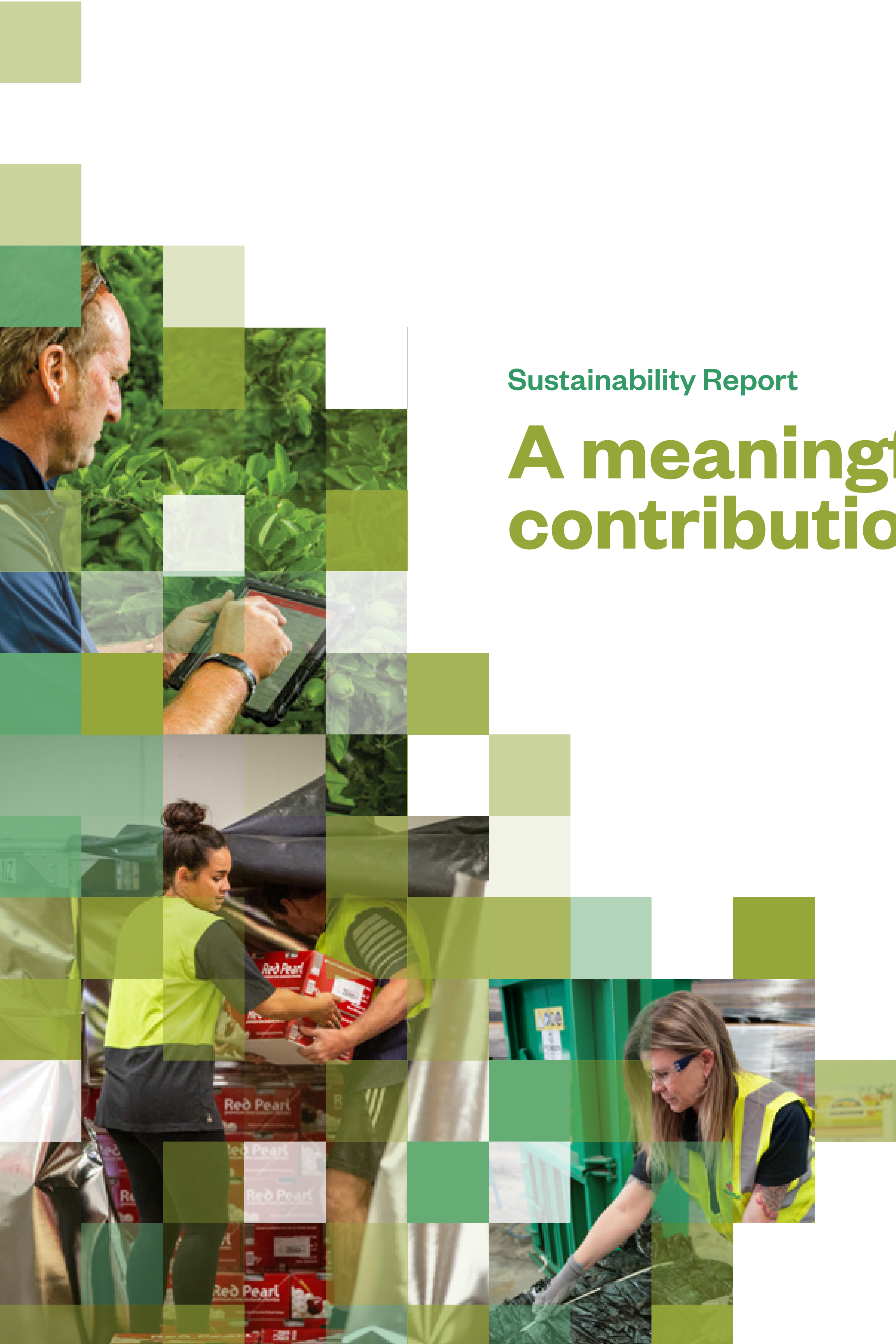
Thanks, once again, go to all our management and staff, fellow Directors, suppliers, customers and other stakeholders. We greatly appreciate your collective support and assistance in our 108th year of trading and we look forward with anticipation to 2020.

Tim Goodacre
Chair

Andy Borland
Managing Director

20 March 2020

From L to R: Tomakin Lai, Jemma McCowan, Mark Hutton, Nick Harris, Alan Isaac, Nadine Tunley, Andy Borland, Tim Goodacre - Scales' Directors on the site of Mr Apple's new coolstore at Whakatu.



Sustainability Report

A meaningful contribution

Our Journey to Date

Progress on our Sustainability journey continued in 2019. In 2018 we began measuring our impact in, and setting targets for, our key Sustainability focus areas and we sustained this momentum in 2019.

Our focus remains on the 3 key areas identified previously, being:

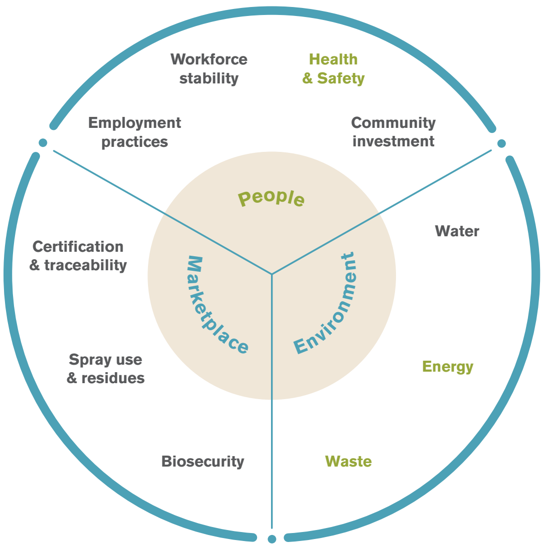
People – in particular, staff engagement, leadership and health and safety.

Energy – carbon footprint calculation and emission reduction initiatives.

Waste – in particular, reducing the amount of waste sent to landfill and increasing recycling or repurposing.

Due to its size, we continued our focus on the operations of the Horticulture division. However, several initiatives were undertaken throughout the whole Scales group and incremental progress was made in a wide range of areas.

Sustainability framework - areas of focus



It's All About Our People

500+ Permanent staff members

35+ Operational sites

43yrs Longest serving employee

~25% Staff with more than 10 years of service

~25% Permanent female staff Scales wide

~30% Female senior management staff

18 Different ethnicities recorded in our payroll system

30+ People involved in the Solo Parent and Seasonal Employer/Employee Development programmes

170+ People have undertaken NZQA *Health and Safety Representative* training

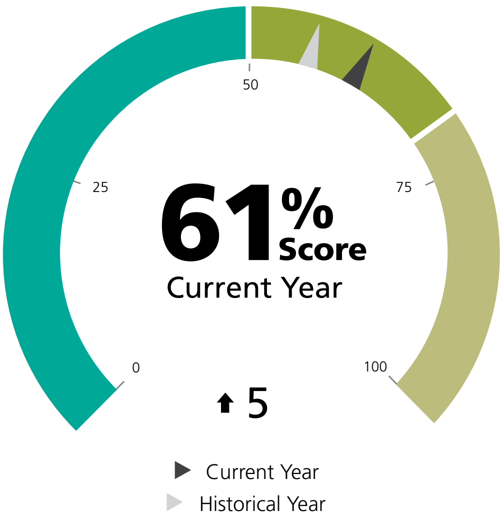
Our People

Staff Engagement Survey

Following our inaugural Group-wide staff engagement survey last year, we undertook a second engagement study this year in conjunction with Kincentric (formerly part of AON).

Our initial survey identified a few areas for improvement and during 2019 several initiatives were launched throughout Scales to achieve better engagement, understanding and communication with our teams. The most recent survey reflects the success achieved in a number of those areas, including our engagement score being above the New Zealand average of 59 per cent.

It is a privilege to receive such feedback from our staff and each business unit is committed to working with their teams to improve the areas identified as requiring improvement, such as a communicating our wins better and celebrating achievement.



Health and Safety

Safety Vision and Culture

Scales now has 5 dedicated personnel focusing on the safety and wellbeing of our teams. Together they share resources, ideas and expertise. At Mr Apple and Balance Cargo, 3 year Strategic Safety Plans have been created, which will be implemented throughout 2020-2023. The main focus is on culture with our vision being:

"Health and safety are an important and integral part of our everyday practices – safety to the core."

Health & Safety
to the core

Our health and safety culture underpins everything that we do. In 2019, the Mr Apple coolstore took on the challenge of significantly increasing their overall health and safety culture, setting ambitious goals. The results were impressive:

- An increase in reporting of 442 per cent.
- A reduction in *Infolink* impact reports (electronic forklift records) of 69 per cent.
- A 60 per cent decrease in damages.
- 8 per cent below the coolstore's operational cost budget by improving processes and streamlining movements.

Health and Safety Highlights

Whist many changes and improvements were made, and a continuing growth in culture and engagement, there were a number of health and safety highlights that stood out for the Group:

- Achievement of 'Performing' in our first SafePlus assessment.
- 150 per cent increase in safety observations reported and an increase in near-miss reporting at Mr Apple and Balance Cargo.
- Technology improvements such as installation of light halos and additional sensors for forklifts.
- Standard Operating Procedure improvements, making them more relatable to the reader.
- Critical Risk training sessions completed throughout the Mr Apple and Balance Cargo permanent workforce.
- Sharing of resources throughout the group, including the roll out of the forklift competency framework throughout Meateor and Balance Cargo.
- Significant traffic management improvements at Mr Apple's Whakatu Packhouse and the Balance Cargo Magdala site.
- Over 50 people completing a bespoke Incident Cause Analysis Method (ICAM) investigation training day.

It should be noted that the physical nature of our businesses means that our employees can be susceptible to injuries. However, the majority of our injuries are of a relatively minor nature. Our Lost Time Injury (LTI) rate continues to be relatively static, with strains and sprains being our biggest contributor to days off work.

▲ *Amalia Canterbury, Doug Chapman, Sage Strahl-Johnston (Coolstore Manager, Coolstore Planner, Team Leader, respectively).*

An iMove (movement and mechanics) focus started in 2019 and will be expanded during 2020. This is an internal initiative, currently in operation at Mr Apple, to better understand how injuries occur and what simple body position adjustments can be done to prevent them.

SafePlus

SafePlus is a health and safety improvement toolkit for businesses and other organisations, launched in 2017. It was developed jointly by WorkSafe New Zealand, Accident Compensation Corporation and the Ministry of Business, Innovation and Employment to offer a Government-endorsed model of what 'good' health and safety practices and performance look like.

It is a framework of 10 performance requirements, organised under 3 key elements of Leadership, Worker Engagement and Risk Management. Each element has between 3 and 5 indicators and a 3 level maturity scale applied to it (being Developing, Performing and Leading). Continual improvement underpins all the elements and, rather than it being an audit, it is an assessment resulting in recommendations.

A SafePlus assessment was undertaken by an independent team between June and November at the Mr Apple and Balance Cargo sites, with a critical risk focus on:

- Long term health impairment through exposure to pesticides.
- Mobile plant related injuries.
- Fatigue.

Our overall result was that we are a Performing organisation. Recommendations were given, none of which were of critical concern, and these have been quickly and easily incorporated into Mr Apple's and Balance Cargo's 3 year Strategic Safety Plans.

The SafePlus report noted many positives, including how workers were impressed with how well the business looked after their welfare. It also highlighted some differences in health and safety maturity and operational culture within the Group, but that progress is being made towards a uniform standard of good practice.

One observation of note was that Scales has an appetite to improve and keep improving, and that is it willing to try new ideas, act on suggestions and seize opportunities.

We will continue to take part in SafePlus assessments and act upon any recommendations given.

Health and Safety Outlook

We are dedicated to continuous improvement in health and safety. As a result, a number of initiatives have been identified as a focus for 2020. These include:

- Introduction and roll out of the 3 year Strategic Safety Plans at Mr Apple and Balance Cargo.
- Implementation of recommendations from a formal guarding review at the 2 Meateor sites.
- Roll out of our iMove campaign to teach teams how to move and support their own bodies during movement, preventing pain and injury to reduce days off work.
- Cross-auditing by the collective safety teams during their 6 monthly meetings, to introduce a fresh perspective and continue to seek innovative ways to improve our processes and controls.

Recognition

To promote an enhanced culture of communicating our wins and celebrating achievement, we are proud to note the following achievements of our group companies and staff members.

Awards

The following businesses were finalists in recent business awards:

- Balance Cargo – finalist in the Christchurch Casino Champion Service Delivery for Medium/Large Enterprises category, Westpac Business Awards.
- Mr Apple – finalist in the Kensington Swan Best Initiative to Address a Work-Related Health Risk category, New Zealand Safeguard Awards, for their forklift competency framework and training scheme.

Fundraising

As well as being proud of our team members' culture within Scales, we are also proud of their culture outside of the work-place.

- Over $19,000 was raised by Kurt Livingstone, a Fern Ridge team member, and his 3 friends, for the New Zealand Cancer Society by driving a Fern Ridge sponsored 1,000cc vehicle for 1,224 hours, 32 minutes and 10.2 seconds as part of the 2019 Mongol Rally. The route took him from the Czech Republic, through Eastern Europe, Iran, Turkmenistan and Uzbekistan, to Ulaanbaatar in Mongolia.
- Over $3,000 was raised for the Westpac Rescue Helicopter by Steve McKain, a Mr Apple orchard manager, by swimming 20km from Auckland to Waiheke. In the month prior, Steve became the 48th person to complete the 40.2km Lake Taupo Marathon Swim, in a time of 13 hours and 53 seconds.

Governance

At the start of 2019 we were pleased to announce the appointment of Tomakin Lai and Nadine Tunley. Tomakin and Nadine have brought complementary skills and expertise to our Board and enhanced its diversity.

Jemma McCowan

In June 2019 we were pleased to appoint Jemma McCowan as our next Future Director, continuing our participation in the Institute of Directors' programme.

Jemma is General Manager Marketing at New Zealand King Salmon Limited, where she has overall responsibility for delivering the company's branding and sustainability programmes. Jemma has 20 years' experience in marketing management and international business.

This was Scales Corporation's fourth appointment under the Institute of Directors' Future Directors programme, and we are pleased to continue our participation. Scales benefits from the skills and fresh perspective provided by our appointees and we believe that they, in turn, gain valuable exposure to the governance of a listed entity, and to Scales' businesses.

Ethics

In August 2019, Scales launched a whistleblower hotline in partnership with *Report it Now*™, an independent organisation that equips businesses with the tools and capabilities to foster an open and honest work environment. Each staff member received information around warning signals and how to escalate any problems that they encounter or suspect. Complementary to this, an Ethics Committee was created to manage any calls received.

Towards the end of 2019, a group-wide policy review commenced in conjunction with anti-bribery and corruption training for the senior financial, operational and sales teams. A whistleblower policy (to accompany our hotline and reporting channels) was also implemented in 2019 and, in 2020, anti-bribery and corruption, and other, policies will be finalised.

Craig Brooker, Mr Apple Refrigeration Manager.

Marketplace

Business Continuity

All of Scales' businesses continue to have an annually updated Business Continuity Plan, which is supported by the Scales group-wide Crisis Management Plan. A crisis simulation training day, our second such event, is scheduled for July 2020, with the entire senior Scales team to test a real scenario and our reaction to it.

Technology

Scales views technology as a key business enabler that underpins the efficient operation of our businesses. We consistently invest in technology (the application of hardware, software and data solutions) to drive productivity and sustainability improvements, to improve customer engagement and to enhance revenue opportunities. We have developed strong relationships with local and international technology partners to provide best-of-breed solutions and help drive future product developments.

Mr Apple's Smarter Orchard strategic initiatives have resulted in mobilising key orchard data, automating on-orchard processes and providing real-time data across the business to improve knowledge-based decision making. We have granular datasets that go back many years and we are constantly adding additional information, such as environmental data. These datasets are fundamental to developing our Machine Learning and Artificial Intelligence initiatives. Mr Apple's data ensures that we have strong product traceability, and we are now providing access to this data direct to consumers to help with confirming product authenticity and their buying decisions.

Our Environment

Overview

Our ongoing focus in this area is to better utilise what we have, be smarter in what we do and to tread lightly with our existing footprint, ensuring the sustainability and success of our business into the next generation and beyond. Some highlights from our work in 2019 include:

- An EECA audit at 2 Mr Apple sites showed excellent energy management. Further savings are expected as a result of a large lighting replacement scheme underway at the Hastings coolstore site.
- Creation of the Mr Apple Sustainability Group and launch of the company-wide Environmental Plan and reduction projects.
- Purchase of 3 hydraulic balers and a strap-eater to maximise recycling in Mr Apple's post-harvest operations.
- Identification of multiple recycling opportunities previously unavailable for items such as certain types of plastic and Extenday cloth (reflective groundcover).
- In collaboration with other horticultural companies and the local Hawke's Bay councils, the sharing of information throughout the industry around waste stream solutions.
- Considerable reductions on our emissions targets, with Environmental Plan reductions on track.

Further detail on Mr Apple's Environmental Plan and carbon reduction programme are provided in the following sections.

Mr Apple Environmental Plan

Mr Apple has developed an Environmental Plan, which will record year-on-year project progress and emissions reductions. All areas of the business are undertaking projects to further reduce their carbon footprint.

A team of over 20 people meet quarterly to track progress and innovate, with an initial focus on the following 4 United Nations Sustainable Development Goals:

- Goal 6 - to fairly use what water is available to us and ensure that our practices improves its quality rather than degrades it, and to develop management techniques that minimises its use overall.
- Goal 7 - to focus on reducing our energy and fuel consumption, developing efficient management practices and working with our energy and fuel partners to secure a sustainable future source.
- Goal 8 - to be an employer that creates a place to work that is enjoyable, fair and inclusive.
- Goal 12 - to focus on minimising our footprint on our existing land space and develop best practice methods to maximise our output whilst reducing any wastage.

Outlined in this plan are 4 key goals for Mr Apple to achieve between 2019 and 2023:

- Reduce paper use by 10 per cent per annum.
- Reduce electricity consumption by 3 per cent by 2024.
- Reduce overall fuel use by 5 per cent by 2024.
- Reduce waste to landfill by up to 30 per cent by 2024.

To date, progress has been extremely positive, with reductions in 3 out of the 4 areas. Whilst overall fuel use has increased, some areas of the business have achieved reductions and we will take learnings from those areas to see how they may be applied elsewhere.

Toitū Envirocare carbonreduce Certification

Our carbon footprint, and how we can reduce this, continues to be a key focus.

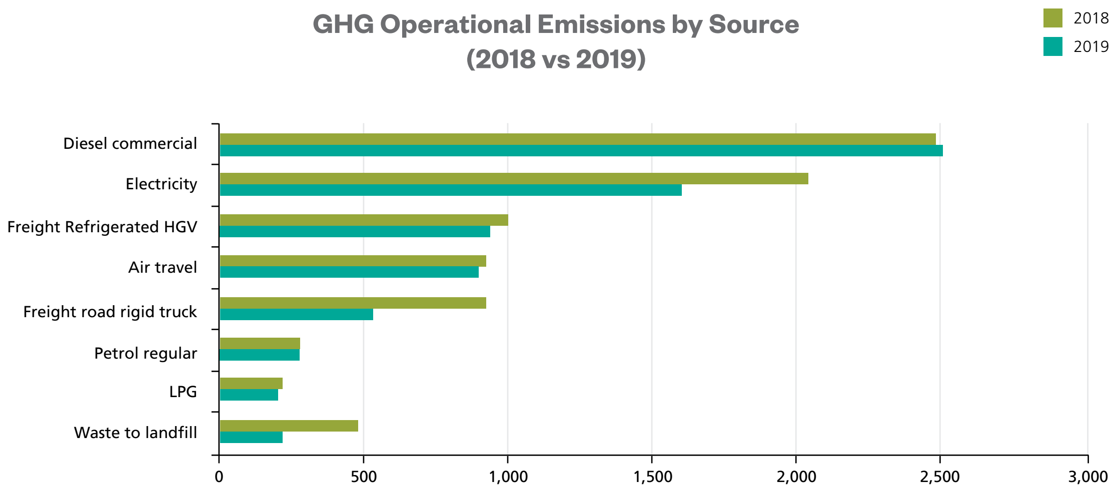
In February 2020, a second carbon footprint certification process was carried out at Mr Apple in respect of the 2019 year. This was previously the Enviro-Mark Solutions CEMARs® certification and has now been rebranded the Toitū Envirocare carbonreduce Certification.

Results from this were extremely positive:

- The overall carbon footprint for Mr Apple reduced by 4 per cent compared to the previous year[1], down to 21,848.04 tonnes of carbon dioxide equivalent (tCO2e).
- Direct emissions from owned or controlled sources increased slightly by 2 per cent to 2,954.77.
- Indirect emissions from the generation of purchased energy decreased by 20 per cent to 1,681.77 tCO2e.
- All other indirect emissions that occur in Mr Apple's value chain decreased by 4 per cent to 17,211.51 tCO2e.

In particular, Mr Apple generated excellent reductions in waste to landfill and electricity use.

[1] Our 2018 footprint was recalculated by Toitū as it was noted that a few months of diesel and petrol figures from 2018 had previously been omitted in error. The results presented are reflective of this change.



Carbon Footprint

Our carbon footprint equates to total gross greenhouse gas (GHG) emissions per:

- All staff (at peak season) of 10.36 tCO2e (2018: 10.39 tCO2e)
- Bins tipped of 0.083 tCO2e (2018: 0.085 tCO2e)
- Cartons exported of 0.0043 tCO2e (2018: 0.0046 tCO2e)
- Hectares planted of 18.45 tCO2e (2018: 19.75 tCO2e)
- Permanent employees of 57.65 tCO2e (2018: 60.14 tCO2e)

Carbon sequestration

Carbon sequestration describes long-term storage of carbon dioxide or other forms of carbon to either mitigate or defer global warming and climate change. It has been calculated that an apple tree sequesters 70 tonnes of carbon over a lifespan of 25 years[1] so, with 1,184 hectares currently planted at Mr Apple, 82,880 tonnes of carbon would be sequestered into the soil.

With an overall carbon footprint of 21,848.04 tCO2e, if we were able to utilise this sequestration, the world would benefit for only 3.8 years. It is therefore imperative we continue to reduce and/or offset our carbon usage in other areas.

Climate change

Climate change is a concern for Scales, as it is for all global businesses. During 2020, we will start to investigate this in more detail, consulting the science world for a factual baseline from which we can assess the potential implications to our business.

Outlook

Our focus for 2020 will be on 3 main areas:

- A continuation of the emission reduction projects and successes already achieved in those areas.
- Sharing of ideas and innovations throughout the wider Scales Group.
- A greater ‘circular economy’ approach to items such as disposable paper cups, in partnership with our suppliers.

[1] Carbon Sequestration by Fruit Trees - Chinese Apple Orchards as an Example - https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0038883.

Divisional Overview

Structure builds confidence

The following section provides a summary of each of our 3 operating divisions, including their performance and key operating statistics. In line with our Group results, we focus on the Underlying financial performance of our business divisions, excluding certain non-cash NZ IFRS and other adjustments.

Horticulture

Overview

Our Horticulture division continues to be the largest division within the Scales group and 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.

It currently operates 3 packhouses, all with high-speed optical grading machines, and 5 coolstores.

The division produced an excellent result in 2019:

- Revenue of $264.8 million, 4 per cent higher than 2018.
- Underlying EBITDA of $39.7 million, 7 per cent lower than 2018.
- 5.95 million TCEs of apple sales, 2 per cent higher than 2018.
- Weighted average FOB apple prices in line with 2018.

Orchard Redevelopment

Our orchard redevelopment programme, which commenced in 2008, is nearing the end of its second phase.

In phase 1, between 2008 and 2014, we undertook an initial redevelopment of approximately 300 hectares of orchard. During this time, we observed sales to Asia and the Middle East increase from 20 per cent in 2007 to 53 per cent in 2015.

Our phase 2 redevelopment is taking place over 2017 to 2020 with a focus on premium brands where we have a proprietary interest, such as Dazzle™ and Posy™, with redevelopment of around 175 hectares in total. Of this, approximately 44 hectares were developed over the 2019 winter and a further 32 hectares are scheduled for redevelopment over the 2020 winter.

When completed, approximately 475 hectares of orchard will have been redeveloped to premium varieties.

We believe that our long-term investments in orchard redevelopment have positioned Mr Apple well to deliver consistent results, with strong diversification of our exposure to any one region or variety. In our view, a multi-premium variety strategy is more attractive to global retailers and positions Mr Apple's harvest as a leading supplier each season.

The market prospects for our existing varieties are continually reviewed and a further phase of orchard redevelopment may be undertaken at a future time.

Apple Brands

The Mr Apple team continues to focus on new variety development.

During 2019 we launched Posy™, a red, very early apple, in China. The launch was supported by a number of positive marketing activations and increased in-market branding initiatives.

Posy™ has already been picked for the 2020 harvest with a special airfreight shipment sent to China in early February 2020 for sales in selected high-end supermarkets and online platforms such as Benlai.com and JD.com.

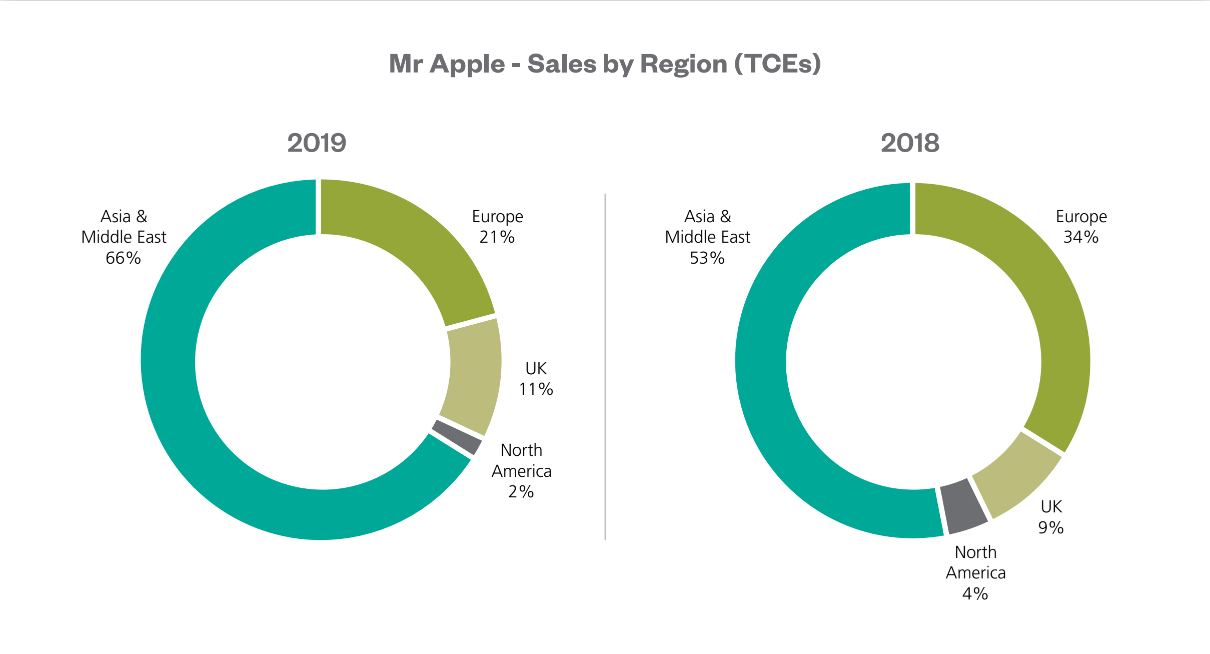
The market feedback from this shipment has been very positive, with JD.com selling out of all of their stock within a week, validating our belief in the attractiveness of this type of premium variety in the Asia market.

Further product launches for both Posy™ and other premium brands are anticipated in the forthcoming year.

Airfreighted Posy™ apples for sale in a Chinese supermarket (February 2020).

Markets

New Zealand has a perfect climate to grow apples and has an industry of talented, passionate and innovative people. Combining these attributes with New Zealand's clean, green image makes New Zealand apples sought after around the world. The Horticulture division continues to take advantage of this position and, in 2019, the Horticulture division once again sold apples to more than 160 customers in over 40 countries.



Our presence in Asia and the Middle East continues to grow, with sales to this market accounting for 66 per cent of all exports in 2019. Conversely, sales to Europe decreased due to a larger than normal European crop.

In particular, our presence in China grew strongly during 2019, with sales to China representing 17 per cent of Mr Apple's export volumes (2018: 10 per cent). The strong growth reflects multiple factors including our ongoing in-market efforts, support from our cornerstone shareholder China Resources Ng Fung, increased participation in the market by PCNZ and a smaller domestic crop in China. As a result of the last factor, we expect that China will represent a smaller percentage of sales in 2020.

Marketing Developments

Our market strategies support, and run in conjunction with, our orchard strategy.

2019 saw increased marketing activations and in-market branding initiatives take place, particularly in Asia and the Middle East, to support the increased volume of export sales to these regions. Examples of these activities included:

- Demonstrations to customers to support in-store sales.
- Apple sampling in, for example, gyms.
- Office block promotions including at the China Resources Vanguard office in Shenzhen.

We continue to move towards retail and e-commerce sales channels, with these now comprising around half of all sales. Whilst e-commerce currently represents only 2 per cent of all volume sold, in the markets where this channel is being used, such as China, e-commerce represents a higher proportion of sales.

Financial Performance and Key Operating Statistics

Summary Performance

The table below shows the financial performance of our Horticulture division for 2019 and 2018:

Horticulture Financial Performance

	2019 $'000	2018 $'000
Horticulture revenue	264,782	254,569
Underlying EBITDA		
Mr Apple	37,357	40,690
Fern Ridge	2,294	1,899
Underlying Horticulture EBITDA	**39,651**	**42,589**
Depreciation and amortisation	(8,781)	(8,387)
Underlying Horticulture EBIT	**30,870**	**34,202**
Horticulture EBITDA	**47,909**	**43,466**
Horticulture EBIT	**32,005**	**35,079**
Capital employed	187,768	169,499
Return on capital employed	17%	21%

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 non-controlling interests. We record a non-controlling interest of $0.4 million (2018: $0.4 million) in our group results reflecting their share of tax paid profit from Fern Ridge. A reconciliation of Reported to Underlying profit measures follows this Divisional Overview section.

The Horticulture division generated record revenue of $265 million, up 4 per cent on the prior year (2018: $255 million) due to a higher than expected Mr Apple export crop, a 9 per cent increase in external grower volumes and an excellent export packout of 79 per cent (2018: 76 per cent).

Whilst Underlying EBITDA of $39.7 million was down 7 per cent on the previous year (2018: $42.6 million), this was an excellent result having regard to the mixed regional market returns. Mitigating reduction in profitability margin is a key focus for Mr Apple, with a number of initiatives in progress such as investment in automation and construction of the new coolstore at Whakatu, which is expected to be operational during the 2021 season. In addition, Mr Apple anticipates a net improvement in margin as fruit volumes from the Phase 2 orchard redevelopment increase from 2022 onwards.

Orchard Statistics

We continue to monitor and report against various operating statistics, a selection of which are noted below.

		2019	2018	2017	2016	2015
Orchard						
Total planted orchard (at time of harvest)[1]	Ha.	1,158	1,149	1,142	1,042	1,052
Fully mature equivalent planted orchard	Ha.	1,023	1,057	1,043	922	902
Apples picked (Mr Apple orchards)	TCE 000s	4,841	5,090	4,434	4,360	4,433
Apples packed (Mr Apple + external growers (Hawke's Bay))	TCE 000s	4,747	4,739	4,354	4,150	3,809
Exported volume						
Mr Apple	TCE 000s	3,822	3,867	3,545	3,546	3,155
External growers[2]	TCE 000s	2,132	1,964	2,078	1,187	1,019
Total	**TCE 000s**	**5,953**	**5,831**	**5,622**	**4,733**	**4,174**
Mr Apple packout %	%	79%	76%	80%	81%	71%
Total NZ production	TCE 000s	21,755	20,687	18,956	19,346	18,360
Mr Apple own grown volume share of NZ production	%	17.6%	18.7%	18.7%	18.3%	17.2%

In summary:

- Assuming an average of 116 apples per TCE, over 560 million apples were picked from Mr Apple's planted apple orchards.
- Gross production was 4.84 million TCEs from which 3.82 million TCEs were exported.
- Together with our external growers, the division sold 5.95 million TCEs, up 2 per cent on 2018.
- Production from our owned and leased orchards continued to be significant to the national apple crop, accounting for 17.6 per cent of the national crop (2018: 18.7 per cent).

[1] Planted orchard at the end of the year was 1,183 hectares.

[2] External grower volumes in 2017 to 2019 include Fern Ridge Fresh.

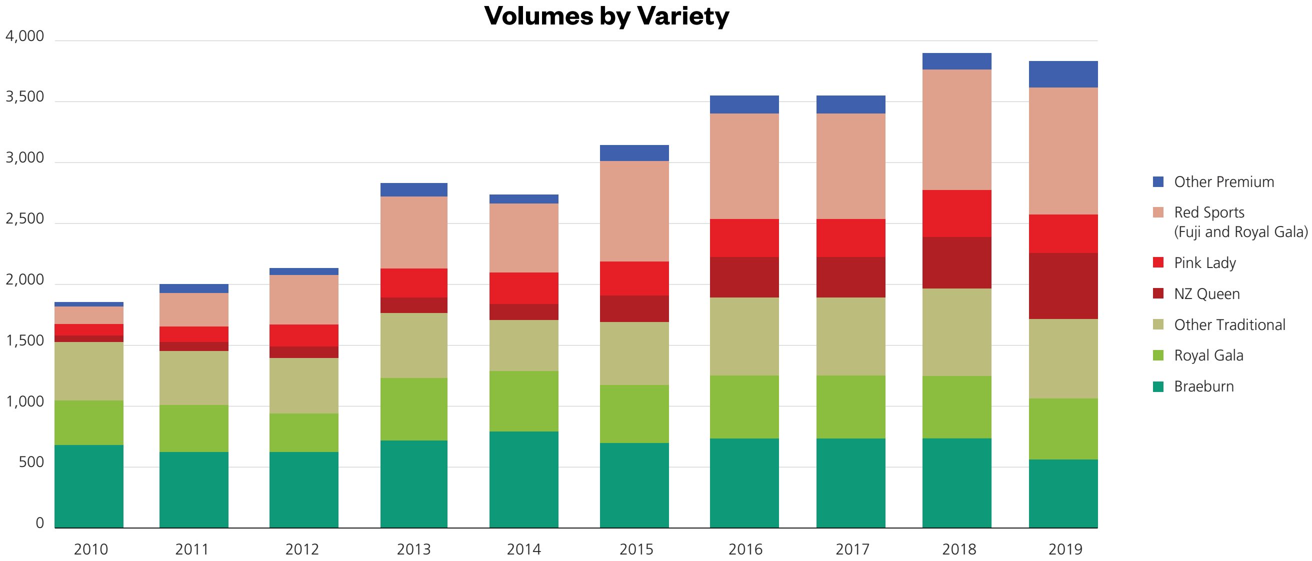
Volumes and Prices

Volumes and prices (on a NZD FOB basis) for 2019 and 2018 are noted below.

Volumes by Variety (TCE 000s)	2019	2018
Premium Varieties		
NZ Queen	538	457
Pink Lady	378	359
Red Sports (Fuji and Royal Gala)	1,046	959
Other	199	126
Total	**2,161**	**1,901**
Growth	14%	18%
% premium	57%	49%
Traditional Varieties		
Braeburn	561	742
Royal Gala	494	557
Other	606	667
Total	**1,661**	**1,966**
Growth	(16%)	2%
Total Mr Apple owned and leased orchards	**3,822**	**3,867**
Growth	(1%)	9%
Prices by Variety (NZD / TCE (FOB))		
Weighted average price for premium varieties	39.8	38.8
Weighted average price for traditional varieties	29.3	32.7
Total weighted average price	35.2	35.7

The 2019 total own grown export crop of 3.8m TCEs was an excellent result having regards to the recent orchard redevelopment, and was 6 per cent ahead of forecast levels.

Our weighted average FOB price was similar to 2018. This reflected the change in mix and improved pricing for premium varieties, including solid performance from proprietary varieties and brands and was despite smaller fruit size. Premium pricing was offset by more mixed results for traditional varieties, which were affected by adverse market conditions in Europe.



Our premium variety volumes were up 14 per cent on 2018, resulting in a crop mix where premium volumes now exceed traditional varieties, accounting for nearly 57 per cent of all sales (2018: 49 per cent). Strong volume growth was achieved in NZ Queen (up 18 per cent), Red Sports (high colour Fuji and Royal Gala) (up 9 per cent) and other premium brand apples including Dazzle™, Posy™ and Rose™, validating our strategy to focus on varieties that appeal to the Asia and Middle East markets.

2020 Outlook

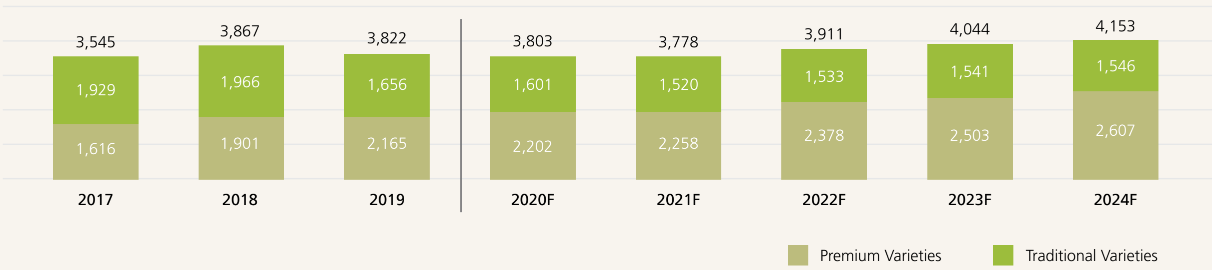
In our 2018 annual report we provided a volume forecast for the Horticulture division reflecting actual and expected redevelopment. We have updated this forecast to reflect actual volumes achieved in 2019 as well as actual redevelopments (including both new orchard plantings and orchard redevelopment) and movements in other orchard land (including small leases that may have been taken on or discontinued through the year).

Whilst the updated projection continues to forecast a softening in volumes in 2020 and 2021, the decrease is less than that previously forecast, and volumes are now forecast to increase to over 4 million TCEs in 2023.

Assuming 2019 apple prices are maintained, and based on our price expectations for new varieties, we believe that the weighted average NZ FOB price per TCE will increase to approximately $37 by 2023 (noting that future sale prices will depend on market conditions at the time).

In conjunction with this, we will also continue our marketing and branding efforts to drive brand awareness and loyalty in Asia.

Mr Apple Own Export Volumes (TCE 000s)



Food Ingredients

Overview

Our Food Ingredients division converts agricultural by-products into valuable food commodities. The division comprises 4 businesses:

- Meateor NZ – a processor and marketer of petfood ingredients for the global petfood industry with processing plants in Whakatu and Dunedin. In April 2019, Alliance acquired a 50 per cent interest in Meateor's New Zealand business.
- Meateor International – 100 per cent ownership of a supplier and marketer of petfood ingredients in Australia and other markets.
- Shelby – 60 per cent ownership of a US procurer, processor and marketer of ingredients for the petfood industry, purchased in December 2018.
- Profruit – 50 per cent ownership of a manufacturer of high quality apple, kiwifruit and pear juice concentrates, located in Hawke's Bay.

Divisional Developments

In a year of change, Food Ingredients has retained its history of positive momentum, both in terms of financial results and opportunities ahead.

The acquisition of Shelby significantly enhanced the volumes of petfood ingredients sold and this, together with the investment partnership with Alliance, allowed the division to make significant progress in diversifying its geographical exposure and range of protein options. The division continues to consider and develop a number of organic growth opportunities.

Profruit also continued to operate well, with juice concentrate volumes in line with last year at 6.2 million litres (2018: 6.2 million litres).

Food Ingredients Structure

Meateor Group

Meateor NZ[1]
Petfood ingredient processor and marketer, New Zealand (50%)

Meateor International[2]
Petfood ingredient supplier, Australia & other markets (100%)

Shelby[2]
Petfood ingredient procurer, processor and marketer, USA (60%)

Profruit[1]
Juice concentrate processor, New Zealand (50%)

[1] Equity accounted.
[2] Fully consolidated into Scales' financial results, with Shelby non-controlling interest deducted from NPAT (2019: $3.1 million).

Profruit management team.

Financial Performance

The table below outlines key operational metrics and the summarised financial performance for Food Ingredients:

Food Ingredients

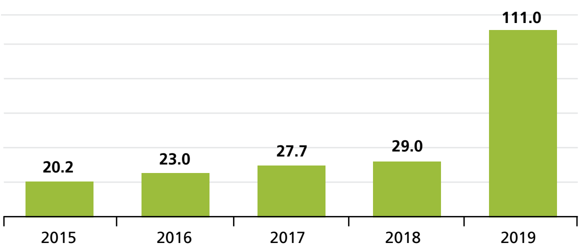
		2019	2018
Key Operational Metrics			
Food Ingredients volume sold	MT	110,970	29,028
Juice concentrate sold	litres 000s	6,170	6,219
Financial Performance		**$'000**	**$'000**
Food Ingredients revenue		155,077	83,054
Underlying Food Ingredients EBITDA		**13,486**	**10,225**
Depreciation and amortisation		(1,018)	(582)
Underlying Food Ingredients EBIT		**12,468**	**9,643**
Food Ingredients EBITDA		**32,921**	**11,021**
Food Ingredients EBIT		**31,842**	**10,439**
Capital employed		79,347	35,324
Return on capital employed		16%	32%

NB: 2018 capital employed and ROCE exclude Shelby. A reconciliation of Reported to Underlying profit measures follows this Divisional Overview section.

Food Ingredients delivered improved revenue, earnings and operational metrics in 2019 in the first year of its new expanded structure. Revenue was $155.1 million, an 87 per cent increase on 2018 ($83.1 million) whilst Underlying EBITDA was $13.5 million compared to $10.2 million in 2018, an increase of 32 per cent.

Volumes also increased significantly showing a step-change of 282 per cent compared to 2018.

Petfood Ingredients Sold (MT 000s)



We are pleased to report that the financial performance from the acquisition of Shelby was consistent with our forecasts. Profitability of the division was impacted by a one-off inventory valuation adjustment resulting from an isolated operational decision to purchase stock outside of normal contract terms. No ongoing effect on forecast trading or volumes is anticipated.

It is also noted that our 50 per cent share of the earnings of Meateor NZ are now equity accounted.

Profruit delivered an excellent result, with our share of earnings being $2.0 million, an increase of 16 per cent on 2018 (2018: $1.7 million). Sales volumes were in line with 2018.

Divisional Strategy

Our initial investments have provided Food Ingredients with a basis for continued growth and set it on the journey to becoming a $25 million EBITDA division.

Market research suggests that the worldwide petfood ingredients sector is an attractive investment proposition, with the worldwide petcare industry being estimated at over US$100 billion[1] and growing. By itself, the China petfood market has been valued at US$1.7 billion, with continued growth forecast[2].

Our global strategy is to be a key provider of petfood ingredients to a wide range of international brands and our transactions in this area provides us with a significant foothold towards satisfying this strategy.

2020 Outlook

We expect a further improvement in performance from the Food Ingredients division in 2020 as the individual businesses continue to develop organic growth opportunities both domestically and offshore. In addition, market demand continues to remain firm and the one-off challenges we encountered in 2019 are not expected to repeat.

The inclusion of petfood in the recent US/China trade agreement, which provides for improved and faster access for US manufactured petfood to China, supports the medium term outlook for both Shelby and the divisions' other petfood interests.

[1] Source: Euromonitor , The State of Global Petfood : New Trends and Growth Opportunities, November 2016.

[2] Source: Mordor Intelligence.

Logistics

Overview and Divisional Developments

2019 was a year of change for our Logistics division, with the Polarcold settlement in May resulting in an update to the division's name. As a result, the Logistics division now comprises:

- Scales Logistics – leaders in ocean freight services to exporters and importers of perishable products, with offices in Auckland, Christchurch, Tauranga, Hawke's Bay, and Melbourne.
- Balance Cargo – providers of air freight services, including a purpose-built chiller and warehousing facilities, based in Christchurch.

Financial Performance

The key operational metrics and the summarised financial performance for the Logistics division are shown below.

Logistics

		2019	2018
Key Operational Metrics			
TEUs shipped	TEUs	39,438	35,210
Airfreight tonnes managed	MT	6,184	9,251
Financial Performance		**$'000**	**$'000**
Revenue		87,076	89,270
Underlying Logistics EBITDA		**3,302**	**4,882**
Depreciation and amortisation		(364)	(237)
Underlying Logistics EBIT		**2,938**	**4,645**
Logistics EBITDA		**4,058**	**4,902**
Logistics EBIT		**3,111**	**4,665**
Capital employed		3,381	4,959
Return on capital employed		70%	107%

NB: As a result of the divestment of Polarcold and Liqueo, only the metrics and results from Logistics are shown for both 2019 and 2018. A reconciliation of Reported to Underlying profit measures follows this Divisional Overview section.

2019 saw a return to long-run performance for Scales Logistics following a particularly strong 2018 year, which benefitted from large airfreight volumes due to stock-building orders for our customers. Underlying EBITDA was $3.3 million compared to Underlying EBITDA of $4.9 million in 2018.

Logistics arranged ocean freight for the equivalent of 39,438 TEUs, an increase of 12 per cent on 2018 (35,210 TEUs) whilst 6,184 tonnes of airfreight were transported in 2019 compared to 9,251 tonnes in 2018. The increase in sea freight and reduction in air freight volumes marks a return to normal trading patterns for this division.

During the year, Logistics leased additional warehouse space in Christchurch and recruited additional sales resource in Melbourne.

2020 Outlook

Given the recent growth in Australasian agricultural products, together with Scales Logistics' specialist expertise in moving food and perishable produce, we believe there are opportunities to grow this division through the medium term. Accordingly, we are committed to seeking further opportunities for growth, both organic and through acquisition.

With our export focus, we expect to meet our trading targets in the forthcoming year.

▲ Scales' Senior Management Team.
From L to R: John Sainsbury, Kent Ritchie, Karen Morrish, Andrew van Workum, Steve Kennelly, Andy Borland.

Reconciliation of Reported to Underlying Profit Measures

The following table provides a reconciliation of Reported profitability to Underlying profitability for the Group and each division.

	Group		Horticulture	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Reported EBITDA	**79,853**	**51,744**	**47,909**	**43,466**
Fair value gain on recognition of investment in joint venture	(9,782)	-	-	-
Gain on disposal of Meateor New Zealand business	(9,782)	-	-	-
NZ IFRS 16 *Leases*	(9,535)	-	(8,640)	-
Equity settled employee benefits	866	849	-	-
Meateor NZ business disposal transaction costs	418	-	-	-
Change in fair value gain on apple inventory	332	256	332	256
Change in gross liability for Non-Controlling Interests	273	(146)	71	(146)
Share based payments	77	31	-	-
Intercompany transactions with discontinued operations	(21)	-	(21)	(987)
Discontinued operations EBITDA	-	14,323	-	-
Underlying EBITDA	**52,699**	**67,057**	**39,651**	**42,589**
Reported EBIT	**61,783**	**42,497**	**32,005**	**35,079**
Fair value gain on recognition of investment in joint venture	(9,782)	-	-	-
Gain on disposal of Meateor New Zealand business	(9,782)	-	-	-
NZ IFRS 16 *Leases*	(1,711)	-	(1,517)	-
Equity settled employee benefits	866	849	-	-
Meateor NZ business disposal transaction costs	418	-	-	-
Change in fair value gain on apple inventory	332	256	332	256
Change in gross liability for Non-Controlling Interests	273	(146)	71	(146)
Share based payments	77	31	-	-
Intercompany transactions with discontinued operations	(21)	-	(21)	(987)
Discontinued operations EBITDA	-	8,787	-	-
Underlying EBIT	**42,453**	**52,274**	**30,870**	**34,202**
Reported Net Profit	**121,577**	**45,499**	**21,038**	**25,510**
Gain on disposal of Polarcold	(73,002)	-	-	-
Interest on settlement of Polarcold, net of tax	4,131	-	-	-
Fair value gain on recognition of investment in joint venture	(9,782)	-	-	-
Gain on disposal of Meateor New Zealand business	(9,782)	-	-	-
NZ IFRS 16 *Leases*	981	-	879	-
Equity settled employee benefits	866	849	-	-
Meateor NZ business disposal transaction costs	414	-	-	-
Change in fair value gain on apple inventory	332	256	332	256
Change in gross liability for Non-Controlling Interests	273	(146)	71	(146)
Share based payments	77	31	-	-
Intercompany transactions with discontinued operations	(56)	-	(21)	(986)
Taxation effect	370	(80)	(93)	(72)
Discontinued operations - Polarcold and Liqueo	-	(8,174)	-	-
Depreciation after transfer to disposal	-	(2,421)	-	-
Underlying Net Profit	**36,399**	**35,814**	**22,206**	**24,562**

Food Ingredients		Logistics		Corporate and eliminations	
2019	2018	2019	2018	2019	2018
$'000	$'000	$'000	$'000	$'000	$'000
32,921	**11,021**	**4,058**	**4,902**	**(5,035)**	**(7,645)**
(9,782)	-	-	-	-	-
(9,782)	-	-	-	-	-
(73)	-	(756)	-	(66)	-
-	-	-	-	866	849
-	-	-	-	418	-
-	-	-	-	-	-
202	-	-	-	-	-
-	-	-	-	77	31
-	(796)	-	474	-	1,309
-	-	-	15,741	-	(1,418)
13,486	**10,225**	**3,302**	**21,117**	**(3,740)**	**(6,874)**
31,842	**10,439**	**3,111**	**4,665**	**(5,175)**	**(7,686)**
(9,782)	-	-	-	-	-
(9,782)	-	-	-	-	-
(12)	-	(173)	-	(9)	-
-	-	-	-	866	849
-	-	-	-	418	-
-	-	-	-	-	-
202	-	-	-	-	-
-	-	-	-	77	31
-	(796)	-	474	-	1,309
-	-	-	10,202	-	(1,415)
12,468	**9,643**	**2,938**	**15,341**	**(3,823)**	**(6,912)**
30,057	**8,183**	**1,917**	**3,360**	**68,565**	**8,446**
-	-	-	-	(73,002)	-
-	-	-	-	4,131	-
(9,782)	-	-	-	-	-
(9,782)	-	-	-	-	-
6	-	92	-	4	-
-	-	-	-	866	849
-	-	-	-	414	-
-	-	-	-	-	-
202	-	-	-	-	-
-	-	-	-	77	31
-	(795)	-	459	(35)	1,322
485	-	-	-	(22)	(8)
-	-	-	7,155	-	(15,329)
-	-	-		-	(2,421)
11,186	**7,388**	**2,009**	**10,974**	**998**	**(7,110)**

Leadership Profiles

Team effort

Board of Directors (as at 20 March 2020)

Tim was elected to the Board in 2014, having been appointed Chair of Scales' Horticulture division in 2012. He has been involved in agribusiness for over 40 years and was CEO of Zespri International from 2003 to 2007. Tim is currently: Chair of The Nutritious Kiwifruit Company Limited, which is a consortium of New Zealand kiwifruit 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 President of Nagambie Lakes Tourism and Commerce Incorporated. Tim is a member of Scales' Nominations and Remuneration Committee.

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 the Chair of Akaroa Salmon Limited, Primary Collaboration New Zealand Limited and Primary Collaboration New Zealand (Shanghai) Co. Limited, and is a Director of George H Investments Limited, Rabobank New Zealand Limited, Rabobank Australia Limited and Rabo Australia Limited. Andy is a member of Scales' Finance and Treasury Committee and Scales' Health & Safety and Sustainability Committee.

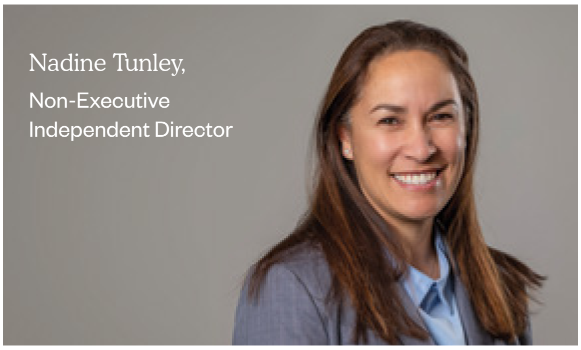
Nick was elected to the Board in 2014, having been appointed a Director of both Scales' Storage & Logistics division and Meateor in 2012. Nick was previously the Managing Director, and was one of the founding shareholders of Hellers Limited, New Zealand's largest bacon, ham and small goods company. Nick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

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. Mark is also a Director of Evergreen Partners Limited. Mark is Chair of Scales' Nominations and Remuneration Committee and of Scales' Finance and Treasury Committee and is a member of Scales' Audit and Risk Management Committee.

Board of Directors (continued)

Alan was elected to the Board in 2014. Alan was the President of the International Cricket Council between 2012 and 2014 and is currently; Chair of the Basin Reserve Trust; a Director of Oceania Healthcare (NZ) Limited, Skellerup Holdings Limited and a number of private companies. Alan has an extensive background in the accounting and finance field and is a former National Chair 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 Chair of Scales' Audit and Risk Management Committee.

Tomakin was appointed to the Board on 28 January 2019. He is a Director of China Resources Ng Fung Limited, which holds a 15.19% shareholding in the Company, and is also the Vice President, Chief Financial Officer and Company Secretary of China Resources Enterprise, Limited. Tomakin joined the China Resources Group in 2008, and holds both a Business Administration degree from the Chinese University of Hong Kong, and a Master of Business Administration degree from the University of Manchester. Tomakin is a Director of New Zealand King Salmon Investments Limited. He has extensive experience in internal and external auditing, finance and accounting, mergers and acquisitions, regulatory and compliance, and as a company secretary.



Nadine was appointed to the Board on 26 February 2019. Nadine is currently CEO of Ngai Tahu owned, Oha Honey LP, which farms in excess of 35,000 bee hives nationwide. Nadine has extensive horticulture and wider primary industry management experience from a number of previous roles. Nadine also brings experience from a wide variety of governance and advisory roles, including as a member of the Primary Sector Council, and as the former Chair of New Zealand Apples & Pears Incorporated. Nadine is a member of Scales' Health & Safety and Sustainability Committee.

Management Profiles

Andy Borland, Managing Director

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

Hamish Davis, Managing Director Fern Ridge

Hamish joined Fern Ridge in 2001, becoming Managing Director in 2008 following supply management and sales roles. He has over 30 years' experience in the growing and post-harvest sectors of the apple industry, and remains very active in export sales for the company.

Brett Frankel, President Shelby Foods

Brett established United States based Shelby Foods in 2007, and has been its President since inception. Brett has over 20 years' experience in petfood, having had a senior procurement role prior to starting Shelby. He also represents the third generation of family involvement in the sector, following in the footsteps of both his father and grandfather.

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.

Karen Morrish, Group Health & Safety, Compliance and Sustainability Manager

Karen was appointed to this Group role in 2017. Prior to that Karen was the Health & Safety and Compliance Manager for Mr Apple, where she has worked for 15 years. In 2019 Karen also took on the role as a Director of New Zealand Apples & Pears Incorporated.

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.

John Sainsbury, CEO Meateor Group

John has been with Meateor in various management roles for the last 19 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, and CEO of Meateor Group during 2019.

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.

Financial Statements

Detail is everything

Contents

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	NOTE	2019 $'000	2018 $'000
Continuing operations			
Revenue	B1	484,609	402,542
Cost of sales	B2	(383,126)	(312,228)
		101,483	**90,314**
Administration and operating expenses	B2	(43,965)	(40,512)
Fair value gain on recognition of investment in joint venture	C3	9,782	-
Gain on disposal of Meateor New Zealand business	C3	9,782	-
Share of profit of entities accounted for using the equity method	C3	2,997	1,706
Other income	B3	421	236
Other losses	B3	(647)	-
EBITDA		**79,853**	**51,744**
Amortisation		(592)	(534)
Depreciation	C1	(9,654)	(8,713)
Depreciation of right of use asset	G2	(7,824)	-
EBIT		**61,783**	**42,497**
Finance revenue		2,834	265
Finance cost	B4	(3,549)	(2,695)
Finance cost of lease liability	G2	(3,075)	-
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		**57,993**	**40,067**
Income tax expense	B5	(9,418)	(11,044)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**48,575**	**29,023**
Profit from discontinued operations (net of tax)	F2	73,002	16,476
PROFIT FOR THE YEAR		**121,577**	**45,499**
Profit for the year from continuing operations is attributable to:			
Equity holders of the Company		45,000	28,608
Non-controlling interests		3,575	415
		48,575	**29,023**

Profit for the year from discontinued operations is fully attributable to equity holders of the Company.

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Basic earnings per share (cents):			
Continuing operations	D5	32.1	20.5
Discontinued operations	D5	52.1	11.8
Total	D5	84.2	32.2
Diluted earnings per share (cents):			
Continuing operations	D5	32.0	20.4
Discontinued operations	D5	51.9	11.7
Total	D5	83.9	32.1

The notes to the financial statements on pages 54 to 87 form part of and should be read in conjunction with this statement.

Consolidated Statement of Comprehensive Income (continued)

for the year ended 31 December 2019

	NOTE	2019 $'000	2018 $'000
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on cash flow hedges		6,496	(6,775)
Income tax relating to cash flow hedges		(1,819)	1,897
Share of other comprehensive income of joint ventures	C3	209	-
Income tax relating to share of other comprehensive income of joint ventures		(58)	-
Foreign exchange (loss) gain on translating foreign operations		(125)	49
		4,703	**(4,829)**
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		11,117	9,762
Income tax relating to buildings		(818)	(175)
Revaluation of apple trees		1,431	(466)
Income tax relating to apple trees		(401)	131
		11,329	**9,252**
OTHER COMPREHENSIVE INCOME FOR THE YEAR	D2	**16,032**	**4,423**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**137,609**	**49,922**
Total comprehensive income for the year attributable to:			
Equity holders of the Company		134,034	49,507
Non-controlling interests		3,575	415
		137,609	**49,922**

The notes to the financial statements on pages 54 to 87 form part of and should be read in conjunction with this statement.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	NOTE	Share capital $'000	Reserves $'000	Retained earnings $'000	Attributable to owners of the Company $'000	Non-controlling interests $'000	Total $'000
Balance at 1 January 2018		**93,750**	**66,887**	**60,839**	**221,476**	**441**	**221,917**
Profit for the year		-	-	45,084	45,084	415	45,499
Other comprehensive income for the year		-	4,423	-	4,423	-	4,423
Total comprehensive income for the year		-	4,423	45,084	49,507	415	49,922
Business acquisition		-	-	-	-	3,165	3,165
Reclassification of revaluation reserve	D2	-	(129)	129	-	-	-
Recognition of share-based payments	D2	-	849	-	849	-	849
Shares sold	D1, D2	109	-	-	109	-	109
Shares fully vested	D1, D2	325	(31)	(46)	248	-	248
Dividends	D3	-	-	(25,897)	(25,897)	(440)	(26,337)
Balance at 31 December 2018		**94,184**	**71,999**	**80,109**	**246,292**	**3,581**	**249,873**
Profit for the year		-	-	118,002	118,002	3,575	121,577
Other comprehensive income for the year		-	16,032	-	16,032	-	16,032
Total comprehensive income for the year		-	16,032	118,002	134,034	3,575	137,609
Reclassification of revaluation reserve	D2	-	(25,912)	25,912	-	-	-
Recognition of share-based payments	D2	-	866	-	866	-	866
Shares fully vested	D1, D2	1,089	(474)	(139)	476	-	476
Dividends	D3	-	-	(26,654)	(26,654)	(3,167)	(29,821)
Balance at 31 December 2019		**95,273**	**62,511**	**197,230**	**355,014**	**3,989**	**359,003**

The notes to the financial statements on pages 54 to 87 form part of and should be read in conjunction with this statement.

Consolidated Statement of Financial Position
as at 31 December 2019

	NOTE	2019 $'000	2018 $'000
EQUITY			
Share capital	D1	95,273	94,184
Reserves	D2	62,511	71,999
Retained earnings	D2	197,230	80,109
Equity attributable to Scales Corporation Limited shareholders		**355,014**	**246,292**
Equity attributable to non-controlling interests		3,989	3,581
TOTAL EQUITY		**359,003**	**249,873**
CURRENT ASSETS			
Cash and bank balances		18,632	2,790
Term deposits		142,000	-
Trade and other receivables	E1	20,593	22,910
Current tax assets		164	-
Other financial assets	E2	4,571	3,921
Unharvested agricultural produce	C2	21,619	20,547
Inventories	C5	26,422	45,442
Prepayments		3,482	3,391
		237,483	**99,001**
Assets held for sale		-	104,378
TOTAL CURRENT ASSETS		**237,483**	**203,379**
NON-CURRENT ASSETS			
Property, plant and equipment	C1	165,741	150,586
Investments accounted for using the equity method	C3	24,973	5,213
Goodwill	C4	43,784	43,875
Other financial assets	E2	7,117	6,903
Computer software		807	1,131
Right of use asset	G2	78,775	-
TOTAL NON-CURRENT ASSETS		**321,197**	**207,708**
TOTAL ASSETS		**558,680**	**411,087**

The notes to the financial statements on pages 54 to 87 form part of and should be read in conjunction with this statement.

Consolidated Statement of Financial Position (continued)

as at 31 December 2019

	NOTE	2019 $'000	2018 $'000
CURRENT LIABILITIES			
Bank overdrafts		1,188	3,749
Trade and other payables	E3	19,843	27,282
Dividend declared	D3	13,328	13,299
Borrowings	E4	-	2,000
Related party borrowings	G3	-	1,329
Current tax liabilities		2,842	845
Other financial liabilities	E5	4,377	5,663
Lease liability	G2	9,427	-
		51,005	**54,167**
Liabilities associated with assets held for sale		-	19,281
TOTAL CURRENT LIABILITIES		**51,005**	**73,448**
NON-CURRENT LIABILITIES			
Borrowings	E4	54,551	64,664
Deferred tax liabilities	B5	19,442	15,588
Other financial liabilities	E5	3,966	7,514
Lease liability	G2	70,713	-
TOTAL NON-CURRENT LIABILITIES		**148,672**	**87,766**
TOTAL LIABILITIES		**199,677**	**161,214**
NET ASSETS		**359,003**	**249,873**

The notes to the financial statements on pages 54 to 87 form part of and should be read in conjunction with this statement.

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	NOTE	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		511,371	460,458
Dividends received		1,517	1,019
Interest received		791	280
		513,679	**461,757**
Cash was disbursed to:			
Payments to suppliers and employees		(442,424)	(409,843)
Interest paid		(6,624)	(2,695)
Income tax paid		(8,532)	(12,652)
		(457,580)	**(425,190)**
NET CASH PROVIDED BY OPERATING ACTIVITIES		**56,099**	**36,567**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of storage businesses		148,882	20,323
Proceeds from sale of Meateor New Zealand business	C3	15,000	-
Advances repaid		722	487
Sale of property, plant and equipment and computer software		57	120
		164,661	**20,930**
Cash was applied to:			
Net cash outflow on acquisition of businesses		-	(35,269)
Investment in term deposits		(142,000)	-
Purchase of computer software		(495)	(827)
Purchase of financial instruments		(497)	(932)
Purchase of property, plant and equipment		(16,313)	(15,589)
		(159,305)	**(52,617)**
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		**5,356**	**(31,687)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from term facility borrowings		-	33,945
Proceeds from seasonal facility borrowings	E4	79,000	67,500
Proceeds from related party borrowings		-	1,329
Treasury stock sold		-	109
		79,000	**102,883**

The notes to the financial statements on pages 54 to 87 form part of and should be read in conjunction with this statement.

Consolidated Statement of Cash Flows (continued)

for the year ended 31 December 2019

	NOTE	2019 $'000	2018 $'000
Cash was applied to:			
Repayments of term facility borrowings	E4	(10,000)	(10,000)
Repayments of seasonal facility borrowings	E4	(81,000)	(72,000)
Repayments of related party borrowings		(1,329)	-
Repayments of lease liabilities		(6,459)	-
Dividends paid		(26,625)	(25,184)
Dividends paid to non-controlling interests		(3,167)	(440)
		(128,580)	**(107,624)**
NET CASH USED IN FINANCING ACTIVITIES		**(49,580)**	**(4,741)**
NET INCREASE IN NET CASH		**11,875**	**139**
Net foreign exchange difference		(201)	(59)
Cash and cash equivalents at the beginning of the year		5,770	5,690
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**17,444**	**5,770**
Represented by:			
Cash and bank balances		18,632	2,790
Bank overdrafts		(1,188)	(3,749)
Cash and bank balances attributable to discontinued operations		-	6,729
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**17,444**	**5,770**

The notes to the financial statements on pages 54 to 87 form part of and should be read in conjunction with this statement.

Consolidated Statement of Cash Flows (continued)
for the year ended 31 December 2019

	NOTE	2019 $'000	2018 $'000
NET CASH GENERATED BY OPERATING ACTIVITIES			
Reconciliation of profit for the year to net cash generated by operating activities:			
Profit for the year		121,577	45,499
Non-cash items:			
Gain on disposal of storage businesses	F2	(68,131)	(8,174)
Gain on disposal of Meateor New Zealand business	C3	(9,782)	-
Fair value gain on recognition of investment in joint venture	C3	(9,782)	-
(Gain) loss on disposal of property, plant and equipment		(57)	127
Amortisation		592	643
Depreciation (including on right-of-use asset)		17,478	10,779
FX option premiums		639	-
Deferred tax		941	1,306
Share of equity accounted results		(2,997)	(1,706)
Share-based payments		1,000	983
Change in gross liability on put options		273	(147)
Items classified as investing and financing activities:			
Dividends received from equity accounted entities		1,500	1,000
Changes in net assets and liabilities:			
Working capital amounts included in acquisition of businesses		-	8,180
Trade and other receivables		(579)	(8,599)
Unharvested agricultural produce		(1,072)	(358)
Inventories		3,540	(23,345)
Prepayments		(975)	(302)
Trade and other payables		(235)	9,733
Current tax		2,169	948
NET CASH PROVIDED BY OPERATING ACTIVITIES		**56,099**	**36,567**

Statement of Cash Flows

For the purpose of the statement of cash flows, cash and cash equivalents include cash and bank balances and bank overdrafts.

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 25 February 2020.

Tim Goodacre, Chair

Andy Borland, Managing Director

The notes to the financial statements on pages 54 to 87 form part of and should be read in conjunction with this statement.

Notes to the Financial Statements
for the year ended 31 December 2019

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" or the "Group"). 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 ventures. 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 adoption of NZ IFRS 16 *Leases* (note H);
- 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;
- Unharvested agricultural produce in note 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 ventures.

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 NZ IFRS 16 *Leases*

See Note H.

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 does not expect these Standards to have a material effect on the financial statements of the Group.

A. Segment Information

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 and United States of America.

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, Meateor Group Limited, Meateor US LLC, Shelby JV LLC Group (Shelby Cold Storage LLC, Shelby Exports Inc, Shelby Foods LLC, Shelby JV LLC, Shelby Properties LLC,Shelby Trucking LLC), Meateor GP Limited, Meateor Pet Foods Limited Partnership and Profruit (2006) Limited.

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

Logistics: logistics services. Scales Logistics Limited and Scales Logistics Australia Pty Ltd.

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

	Horticulture	Food Ingredients	Logistics	Other	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2019 (continuing operations)						
Total segment revenue	264,782	155,077	87,076	3,461	(25,787)	484,609
Inter-segment revenue	-	-	(22,948)	(2,839)	25,787	-
Revenue from external customers	**264,782**	**155,077**	**64,128**	**622**	**-**	**484,609**
Gain on sale of non-current assets	45	-	-	1	-	46
Share of profit of entities accounted for using the equity method	-	2,997	-	-	-	2,997
EBITDA	**47,909**	**32,921**	**4,058**	**(5,035)**	**-**	**79,853**
Amortisation expense	(486)	(1)	(36)	(69)	-	(592)
Depreciation expense	(8,296)	(1,016)	(328)	(14)	-	(9,654)
Depreciation of right of use asset	(7,122)	(62)	(583)	(57)	-	(7,824)
Finance revenue	19	10	3	2,802	-	2,834
Finance costs	(16)	(23)	(33)	(3,477)	-	(3,549)
Finance cost of lease liability	(2,739)	(20)	(301)	(15)	-	(3,075)
Segment profit (loss) before income tax	29,269	31,809	2,780	(5,865)	-	57,993

Segment Reporting (continued)

	Horticulture $'000	Food Ingredients $'000	Logistics $'000	Other $'000	Eliminations $'000	Total $'000
Segment assets	293,249	101,091	18,619	145,721	-	558,680
Segment liabilities	112,426	11,110	12,269	63,872	-	199,677
Segment carrying value of investment accounted for using the equity method	-	24,973	-	-	-	24,973
Segment acquisition of property, plant and equipment and computer software	15,002	191	470	10	-	15,673
2018 (continuing operations)						
Total segment revenue	254,568	83,053	89,270	3,756	(28,105)	402,542
Inter-segment revenue	-	-	(24,783)	(3,322)	28,105	-
Revenue from external customers	**254,568**	**83,053**	**64,487**	**434**	**-**	**402,542**
Gain on sale of non-current assets	72	-	-	-	-	72
Share of profit of entity accounted for using the equity method	-	1,706	-	-	-	1,706
EBITDA	**43,466**	**11,021**	**4,902**	**(7,645)**	**-**	**51,744**
Amortisation expense	(471)	(4)	(31)	(28)	-	(534)
Depreciation expense	(7,916)	(578)	(206)	(13)	-	(8,713)
Finance revenue	189	4	1	71	-	265
Finance costs	(14)	-	(34)	(2,647)	-	(2,695)
Segment profit (loss) before income tax	35,254	10,443	4,632	(10,262)	-	40,067
Segment assets	198,761	92,382	10,706	4,860	-	306,709
Segment liabilities	43,958	20,330	6,650	70,995	-	141,933
Segment carrying value of investment accounted for using the equity method	-	5,213	-	-	-	5,213
Segment acquisition of property, plant and equipment and computer software	10,002	516	780	171	-	11,469
Property, plant and equipment and computer software included in business acquisitions	-	4,900	-	-	-	4,900

B. Financial Performance

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

	2019 $'000	2018 $'000
By nature:		
Revenue from the sale of goods	390,855	312,890
Revenue from the rendering of services	90,280	84,918
Fees and commission	89	84
Net foreign exchange (loss) gain	(127)	1,688
Rental revenue	3,512	2,962
	484,609	**402,542**
By market:		
New Zealand	107,465	106,543
Asia	153,301	117,938
Europe	64,621	93,853
North America	154,994	82,968
Other	4,228	1,240
	484,609	**402,542**
By segment and type:		
Horticulture - sale of agricultural produce	237,584	232,041
Horticulture - agricultural produce related services	23,695	19,572
Horticulture - other	3,503	2,955
Food ingredients - sale of pet food ingredients	152,963	82,246
Food ingredients - other	2,114	807
Logistics services	64,128	64,487
Other	622	434
	484,609	**402,542**

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

B1. Revenue (continued)

Sale of agricultural produce

The Group sells apples to more than 160 customers in 40 countries. Sales-related quality claim provisions are recorded in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer ("outright sales") or when the goods have been sold by the customer ("consignment sales"). In addition, the apple season finishes before the end of the calendar year, with performance obligations under both sales types satisfied for all sales made during that season.

Outright sales

Following shipment, revenue is recognised when the customer obtains control as it has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when onselling the goods and bears the risks of loss in relation to the goods. A receivable is recognised by the Group when it loses control, which is when the goods are delivered on the ship at the port of shipment as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before the payment is due. Terms of payment are up to 45 days on arrival.

Consignment sales

Revenue is recognised by the Group when it loses control, which is when the goods are confirmed to be on-sold to the ultimate customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before the payment is due. Terms of payment are immediate upon on-sale.

Sale of petfood ingredients

The Group sells petfood ingredients to a number of international and domestic customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customer ("delivered to destination sales") or when shipped to the customer ("outright sales"). Terms of payments are up to 120 days.

Delivered to destination sales

Following delivery, revenue is recognised when the customer obtains control as it has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when onselling the goods and bears the risks of loss in relation to goods. A receivable is recognised by the Group when it loses control, which is when the goods are delivered to the destination named by the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before the payment is due.

Outright sales

Same as above under "Sale of agricultural produce - outright sales".

Agricultural produce related services

The Group provides a number of agricultural produce related services to external apple growers, including packaging, cartage, export documentation and export services. Each of those services is considered to be a distinct service as it is both regularly supplied by the Group to customers on a stand-alone basis and is available for customers from other providers in the market.

A receivable is recognised by the Group when the service performance has been completed, and the performance obligation is satisfied as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before the payment is due. Terms of payment are up to 45 days.

Logistics services

The Group provides marine and air logistics services to domestic customers. Revenue is recognised by the Group at the point in time, which is when the shipment is organised and the goods are on the ship or the aeroplane. The performance obligation is satisfied as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before the payment is due. Terms of payments are up to 60 days.

B2. Cost of Sales, Administration and Operating Expenses

	2019 $'000	2018 $'000
Auditor's remuneration:		
Deloitte (New Zealand):		
Audit of the financial statements:		
Audit of the annual financial statements	168	159
Review of interim financial statements	45	41
Other services:		
Audit of solvency certificate for Selacs Insurance Limited	6	6
Anti-bribery and corruption awareness training	-	6
Sheehan & Company CPA, PC (United States):		
Component auditor's fee for group audit	69	-
Component auditor's fee for review of subsidiary financial statements	30	-

B2. Cost of Sales, Administration and Operating Expenses (continued)

	2019 $'000	2018 $'000
Bad debts (recovered) incurred	(168)	522
Change in fair value adjustment to unharvested agricultural produce	332	256
Change in inventories	3,540	(17,510)
Direct expenses	65,987	47,037
Directors' fees	555	463
Donations	13	7
Electricity	2,774	3,174
Employee benefits expense:		
Post employment benefits - defined contribution plans	1,401	1,227
Post employment benefits - defined benefit plans	409	-
Salaries, wages and related benefits	73,754	67,426
Other employee benefits	743	1,049
Grower payments	62,376	53,036
Insurance	3,589	3,594
Management fees	97	141
Materials and consumables	102,877	78,802
Ocean and air freight	81,154	77,903
Operating lease expenses	2,089	10,672
Packaging	18,940	18,684
Provision for write-down of inventories	1,168	-
Repairs and maintenance	5,143	6,045
	427,091	**352,740**
Disclosed as:		
Cost of sales	383,126	312,228
Administration and operating expenses	43,965	40,512
	427,091	**352,740**

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.

B3. Other Income and Losses

	2019 $'000	2018 $'000
Dividends	1	18
Gain on disposal of property, plant and equipment	46	72
Reinsurance income (Note G4)	374	-
Insurance claims expense paid (Note G4)	(374)	-
Remeasurement of gross liability to non-controlling interest	(273)	146
	(226)	**236**
Disclosed as:		
Other income	421	236
Other losses	(647)	-
	(226)	**236**

B4. Finance Cost

	2019 $'000	2018 $'000
Interest on loans	3,298	2,417
Other interest	123	94
Bank facility fees	128	184
	3,549	**2,695**

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 from continuing operations	8,795	10,892
Current tax expense from discontinued operations	2,483	2,736
Total current tax expense	**11,278**	**13,628**
Adjustments recognised in the current year in relation to the current tax of prior years	(74)	-
Deferred tax expense relating to the origination and reversal of temporary differences	438	1,277
	11,642	**14,905**
Total income tax expense recognised in profit or loss from continuing operations	9,418	11,044
Total income tax expense recognised in profit or loss from discontinued operations (Note F2)	2,224	3,861
Total income tax expense recognised in profit or loss	**11,642**	**14,905**

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

Profit from continuing operations	57,993	40,067
Profit from discontinued operations (Note F2)	75,226	20,337
Total profit before tax	**133,219**	**60,404**
Income tax expense calculated at applicable corporate tax rates	37,128	16,913
Non-assessable income	(26,278)	(2,772)
Non-deductible expenses	688	726
Under (over) provision of income tax in previous year - current tax	(73)	11
Under provision of income tax in previous year - deferred tax	177	27
	11,642	**14,905**

The tax rates used in the above reconciliation are the corporate tax rate of 28% payable by New Zealand companies under New Zealand tax law, 30% payable by Australian companies under Australian tax law and 25.5% payable by US entities under US tax law (being federal tax 21% and weighted average state tax 4.5%).

B5. Taxation (continued)

	Opening balance	Charged to profit or loss	Charged to other comprehensive income	Discontinued operations	Closing balance
	$'000	$'000	$'000	$'000	$'000
Deferred tax liability					
Taxable and deductible temporary differences arise from the following:					
31 December 2019					
Deferred tax liabilities (assets):					
Trade and other receivables	(140)	117	-	-	(23)
Unharvested agricultural produce	5,558	490	-	-	6,048
Property, plant and equipment and computer software	10,833	768	1,219	-	12,820
Trade and other payables	(467)	(236)	-	-	(703)
Lease liability and right-of-use asset (NZ IFRS 16)	-	(381)	-	-	(381)
Other financial assets and liabilities and joint ventures	(196)	-	1,877	-	1,681
Net deferred tax liability	**15,588**	**758**	**3,096**	**-**	**19,442**
31 December 2018					
Deferred tax liabilities (assets):					
Trade and other receivables	(5)	(134)	-	(1)	(140)
Unharvested agricultural produce	5,652	(94)	-	-	5,558
Property, plant and equipment and computer software	21,496	1,611	44	(12,318)	10,833
Trade and other payables	(669)	(106)	-	308	(467)
Other financial assets and liabilities	1,701	-	(1,897)	-	(196)
Net deferred tax liability	**28,175**	**1,277**	**(1,853)**	**(12,011)**	**15,588**

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 from these transactions are recognised in profit or loss in the period in which they arise.

Income and expenses for each subsidiary whose functional currency is not New Zealand dollars are translated at exchange rates that approximate the rates at the actual dates of the transactions. Assets and liabilities of each subsidiary are translated at exchange rates at balance date.

All resulting exchange differences are recognised in the foreign exchange translation reserve, which is a separate component of equity.

The effective portion of exchange differences on foreign currency borrowings designated as hedges of net investments in foreign operations is also recognised in the foreign exchange translation reserve.

C. Key Assets

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	Plant and equipment at cost $'000	Office equipment & motor vehicles at cost $'000	Capital work in progress at cost $'000	Total $'000
Gross carrying amount						
Balance at 1 January 2018	**142,625**	**33,348**	**115,775**	**20,802**	**4,174**	**316,724**
Additions	843	3,857	6,019	1,187	19	11,925
Acquisition of businesses	2,187	-	2,691	22	-	4,900
Reclassified as held for sale	(65,450)	-	(38,596)	(7,912)	(2,179)	(114,137)
Sale of bulk storage assets	(2,132)	-	(14,752)	(182)	-	(17,066)
Disposals	(219)	-	(3,477)	(1,953)	-	(5,649)
Revaluation	8,794	(5,605)	-	-	-	3,189
Effect of foreign currency translation	21	-	26	-	-	47
Balance at 31 December 2018	**86,669**	**31,600**	**67,686**	**11,964**	**2,014**	**199,933**
Additions	96	3,656	5,011	1,132	5,506	15,401
Disposals	-	-	(11,532)	(994)	-	(12,526)
Revaluation	10,020	(1,342)	-	-	-	8,678
Effect of foreign currency translation	(6)	-	(13)	-	(7)	(26)
Balance at 31 December 2019	**96,779**	**33,914**	**61,152**	**12,102**	**7,513**	**211,460**
Accumulated depreciation and impairment						
Balance at 1 January 2018	**-**	**2,617**	**70,603**	**14,623**	**-**	**87,843**
Depreciation expense	1,609	2,522	5,030	1,618	-	10,779
Reclassified as held for sale	(607)	-	(24,345)	(5,368)	-	(30,320)
Sale of bulk storage assets	-	-	(7,380)	(65)	-	(7,445)
Disposals	(34)	-	(3,461)	(1,908)	-	(5,403)
Revaluation	(968)	(5,139)	-	-	-	(6,107)
Balance at 31 December 2018	**-**	**-**	**40,447**	**8,900**	**-**	**49,347**
Depreciation expense	1,097	2,773	4,573	1,211	-	9,654
Disposals	-	-	(8,477)	(918)	-	(9,395)
Revaluation	(1,097)	(2,773)	-	-	-	(3,870)
Effect of foreign currency translation	-	-	(17)	-	-	(17)
Balance at 31 December 2019	**-**	**-**	**36,526**	**9,193**	**-**	**45,719**
Net book value						
As at 31 December 2018	86,669	31,600	27,239	3,064	2,014	150,586
As at 31 December 2019	**96,779**	**33,914**	**24,626**	**2,909**	**7,513**	**165,741**

The preceding disclosure includes both continuing and discontinued operations up to the date of sale or reclassification into held for sale. Depreciation expense includes both continuing and discontinued operations.

C1. Property, Plant and Equipment (continued)

Accounting policy

Land, buildings and apple trees are included in the statement of financial position at their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations 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 valuation increase arising on the revaluation of such land, buildings and apple trees 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 valuation 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 the straight-line 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 2019 by independent registered valuers Added Valuation Limited and Logan Stone Limited. The valuations 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 by 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 coolstores and packhouses) are potential market comparative rentals $5 - $155 per square metre and the capitalisation rates of 8.5% - 12%. 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. Orchard land is valued within the range of $28,300 to $123,000 per hectare.

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 $48,077,000 (31 December 2018: $48,774,000).

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 2019. 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 are:

	2019	2018
Production levels (gross tray carton equivalent (tce)) per hectare	3,495 - 6,021	3,250 - 5,950
Orchard gate returns per tce	$25.00 - $38.00	$25.75 - $45.54
Orchard costs per tce	$15.31 - $28.34	$19.55 - $32.45
Discount rate	15.58% - 19.40%	16.0% - 19.40%

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.

C1. Property, Plant and Equipment (continued)

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

	Total Hectares Planted	
	2019	2018
Premium varieties:		
NZ Queen	210	211
Pink Lady	123	120
Red sports (Fuji and Royal Gala)	259	247
Other premium	151	122
Traditional varieties:		
Braeburn	110	128
Royal Gala	176	182
Other traditional	153	145
	1,182	**1,155**

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

	2019 $'000	2018 $'000
Balance at beginning of the year	20,547	20,189
Decrease due to harvest	(20,547)	(20,189)
Development expenditure	21,254	19,850
Fair value adjustment	365	697
Balance at end of the year	**21,619**	**20,547**

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 Group's unharvested agricultural produce is classified as Level 3 in the fair value hierarchy.

The significant unobservable inputs included in the model are the:

	2019	2018
Production levels (tonnes per hectare per annum)	63 - 108	59 - 115
Orchard gate returns per tce	$23 to $43	$24 to $41
Risk adjusting discount rates	53% to 71%	55% to 73%

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

Details of each of the Group's material joint ventures at the end of the reporting period are as follows:

Joint ventures	Principal activity	Country of incorporation	Holding 2019	Holding 2018	Balance date
Profruit (2006) Limited	Trading company	New Zealand	50%	50%	31 December
Meateor Pet Foods Limited Partnership	Trading company	New Zealand	50%	0%	31 December

Summarised financial information in respect of the Group's joint ventures is set out below. The aggregate summarised financial information below represents amounts in joint ventures' financial statements prepared in accordance with NZ IFRS Standards.

	2019 $'000	2018 $'000
Current assets	31,110	11,437
Non-current assets	30,218	2,984
Current liabilities	(8,233)	(3,628)
Non-current liabilities	(3,149)	(367)
Net assets	**49,946**	**10,426**
Group's share in the net assets of equity accounted entities (50%)	24,973	5,213
Carrying amount of investment in equity accounted entities	**24,973**	**5,213**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	2,243	226
Current financial liabilities (excluding trade and other payables and provisions)	(1,340)	(1,315)
Non-current financial liabilities (excluding trade and other payables and provisions)	(3,114)	(332)
Revenue	54,892	21,554
Profit for the year after tax	5,994	3,412
Other comprehensive income attributable to the owners of the company	418	-
Total comprehensive income	**6,412**	**3,412**
The above profit for the year includes the following:		
Depreciation and amortisation	817	524
Interest expense	325	321
Income tax expense	1,542	1,326

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint ventures recognised in the consolidated financial statements:

	2019	2018
Share of profit before taxation	3,768	2,369
Share of income tax	(771)	(663)
Share of other comprehensive income (net of tax)	209	-
Share of net profit for the year and total comprehensive income	**3,206**	**1,706**
Carrying value at beginning of the year	5,213	4,507
Interest retained in Meateor Pet Foods Limited Partnership	18,054	-
Dividend paid by Profruit (2006) Limited	(1,500)	(1,000)
Investment in equity accounted entities	**24,973**	**5,213**

C3. Investments Accounted for Using the Equity Method (continued)

The Scales Corporation Limited Group share of the guarantee of the Profruit (2006) Limited bank loan facilities is $2,052,808 (2018: $691,092).

On 7 March 2019, the Company announced an agreement to enter into a pet food Joint Venture (JV) with Alliance Group Limited (Alliance). Under the terms of the JV, Alliance would pay $15 million to acquire a 50% interest in Meateor Food Limited's (a wholly owned subsidiary of the Group) New Zealand business and operations. The sale settled on 1 April 2019. Accordingly, Meateor Pet Foods Limited Partnership (MPFLP) was incorporated on 13 March 2019. The general partner of MPFLP is Meateor GP Limited incorporated on 12 March 2019, which is owned 50/50 by the Group and Alliance.

MPFLP acquired Meateor Foods Limited's New Zealand business and operations for $30 million. The Group and Alliance each contributed $15 million in exchange for a 50% limited partnership interest. $15 million capital contribution from the Group was set off against $30 million receivable from MPFLP. A total $19.6 million gain was recognised which includes gain on sale of the Meateor New Zealand business to the JV and gain on fair value measurement of the interest in the JV.

	$'000
Net proceeds on disposal	15,000
Plus: Difference between target and actual working capital receivable	3,054
Plus: Fair value of investment retained (50% of MPFLP)	18,054
Less: Net assets disposed	(16,544)
Gain on sale	**19,564**

Total gain on sale is allocated as follows:	
Fair value gain on recognition of investment in joint venture	9,782
Gain on disposal of Meateor New Zealand business	9,782

The Group accounted for the loss of control under NZ IFRS 10 *Consolidated Financial Statements* and recognised the full gain within profit or loss.

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 joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a 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 joint venture. Dividends or distributions received from a joint venture reduce the carrying amount of the investment in that joint venture in the Group financial statements. When the Group's share of losses of a joint venture exceeds the Group's interest in that 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 joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture until the date it ceases to be a joint venture. On acquisition of the investment in a 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 *Impairment of Assets* are applied to determine whether it is necessary to recognise any impairment loss.

C4. Goodwill

	2019 $'000	2018 $'000
Gross carrying amount		
Balance at beginning of the year	43,875	18,177
Disposal of Liqueo Bulk Storage Limited	-	(1,989)
Acquisition of 60% in Shelby JV LLC Group	-	27,421
Effect of foreign currency exchange differences	(91)	266
Balance at end of the year	**43,784**	**43,875**

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. Goodwill is tested for impairment annually, or more frequently if there are indications that goodwill might be impaired. For the purpose of impairment testing, goodwill has been allocated to the cash-generating units ("CGUs") listed below which represent the lowest level at which the Directors monitor goodwill.

C4. Goodwill (continued)

	2019 $'000	2018 $'000
Logistics	1,955	1,955
Mr Apple	14,233	14,233
Shelby	27,596	27,687
	43,784	**43,875**

As at 31 December 2019, the Directors have determined, based on discounted cash flow and value in use calculations, that there is no impairment of goodwill associated with any of the above CGUs.

The discounted cash flow and value in use calculations uses future cash flows covering a 5 year period based on a Board approved budget. The model was based on the following key assumptions:

	2019	2018
Pre-tax discount rates	12-13%	13-15%
Annual growth rates	2-3%	2-3%

The Directors consider that any reasonably possible changes in the key assumptions would not cause the carrying amount of any of the CGUs to exceed their recoverable amount.

C5. Inventories

	2019 $'000	2018 $'000
Finished goods	21,583	40,483
Other	4,839	4,959
	26,422	**45,442**

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 CGU to which the asset belongs.

A CGU 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 CGU 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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

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 141,579,238 fully paid ordinary shares (2018: 141,103,597) less treasury stock of 1,383,659 shares (2018: 1,195,664 shares) (refer to note D2). All shares rank equally in all respects.

Shares issued or purchased on market under the Senior Executive Share Scheme ("Share Scheme") (note D2) are treated as treasury stock until vesting to the employee.

	Number of shares	
	2019	2018
Fully paid ordinary shares		
Opening balance	141,103,597	140,510,292
Share Scheme - shares issued	475,641	593,305
Closing balance	**141,579,238**	**141,103,597**
Treasury stock		
Opening balance	1,195,664	721,056
Share Scheme - shares issued	475,641	593,305
Share Scheme - shares forfeited and sold on market	-	(22,504)
Share Scheme - shares fully vested	(287,646)	(96,193)
Closing balance	**1,383,659**	**1,195,664**

The available subscribed capital of $42,808,000 (2018: $41,230,000) 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.

	2019	2018
	$'000	$'000
Movement in share capital related to share-based payments:		
Cash-settled share based payment scheme vested	134	134
Equity-settled employee benefit share scheme vested		
Interest-free loan became full recourse	342	114
Accumulated share option value reclassified from reserve into share capital	474	31
Accumulated dividends reclassified from retained earnings into share capital	139	46
	1,089	**325**

D2. Reserves

	Revaluation	Cash flow hedge	Share of joint ventures	Equity-settled employee benefits	Foreign exchange translation	Revaluation related to discontinued operations	Total reserves
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2018	**61,329**	**5,128**	**-**	**430**	**-**	**-**	**66,887**
Other comprehensive income (loss) for the year	9,252	(4,878)	-	-	49	-	4,423
Transfer to retained earnings	(129)	-	-	-	-	-	(129)
Transfer to discontinued operations	(25,912)	-	-	-	-	25,912	-
Recognition of share-based payments	-	-	-	849	-	-	849
Shares fully vested	-	-	-	(31)	-	-	(31)
Balance at 31 December 2018	**44,540**	**250**	**-**	**1,248**	**49**	**25,912**	**71,999**
Other comprehensive income (loss) for the year	11,329	4,677	151	-	(125)	-	16,032
Reclassification of revaluation reserve to RE	-	-	-	-	-	(25,912)	(25,912)
Recognition of share-based payments	-	-	-	866	-	-	866
Shares fully vested	-	-	-	(474)	-	-	(474)
Balance at 31 December 2019	**55,869**	**4,927**	**151**	**1,640**	**(76)**	**-**	**62,511**

Revaluation reserve

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

Cash flow hedge reserve

The cash flow hedge 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 executives 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 3 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.

Grant date	Vesting date	Exercise price, $	Number of shares				
			Opening balance	Granted	Forfeited	Vested and exercised	Closing balance
22 April 2016 - FY15	22 April 2019	1.67	287,646	-	-	(287,646)	-
5 May 2017 - FY16A	5 May 2020	1.70	278,879	-	-	-	278,879
5 May 2017 - FY16B	5 May 2020	2.45	35,834	-	-	-	35,834
20 April 2018 - FY17A	20 April 2021	1.70	309,698	-	-	-	309,698
20 April 2018 - FY17B	20 April 2021	2.51	36,007	-	-	-	36,007
20 April 2018 - FY17C	20 April 2021	3.62	40,577	-	-	-	40,577
28 June 2018 - FY17R	28 June 2021	4.13	207,023	-	-	-	207,023
30 April 2019 - FY18	30 April 2022	2.71	-	261,356	-	-	261,356
28 June 2019 - FY18R	28 June 2022	4.06	-	214,285	-	-	214,285
Total			**1,195,664**	**475,641**	**-**	**(287,646)**	**1,383,659**

The weighted average share price for shares that vested on 22 April 2019 was $5.01.

D2. Reserves (continued)

The shares issued vest over 3 years. 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. Expected share price volatility was based on historical volatility of the Company's ordinary shares.

The inputs into the "option pricing calculator" are:

	2019		2018			
	FY18	FY18R	FY17A	FY17B	FY17C	FY17R
Acquisition date share price, $	5.00	4.75	4.46	4.46	4.46	4.71
Expected share price volatility, %	22	20	22	22	22	22
Option life, years	3	3	3	3	3	3
Risk-free interest rate, %	1.47	1.13	2.11	2.11	2.11	2.01
Exercise price, $	2.71	4.06	1.70	2.51	3.62	4.13
Fair value, at the grant date, $	**2.43**	**1.10**	**2.87**	**2.13**	**1.27**	**1.14**

Foreign exchange translation reserve

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in 2 ways. Gains or losses relating to the effective portion of the hedge are recognised in other comprehensive income. Any gains or losses relating to the ineffective portion of the hedge are recognised in profit or loss.

Gains or losses arising on translation of foreign subsidiaries results (Note B6) are also recognised in this reserve.

Retained earnings

Retained earnings represents the profits retained in the business.

D3. Dividends

	2019	2018
	$'000	$'000
Final dividend paid - 9.50 (2018: 9.00) cents per share	13,326	12,598
Interim dividend declared - 9.50 (2018: 9.50) cents per share	13,328	13,299
	26,654	**25,897**

All above dividends were fully imputed.

The 2019 interim dividend was declared on 5 December 2019 and paid on 17 January 2020.

D4. Imputation Credit Account

	2019	2018
	$'000	$'000
Balance at end of the year	**23,194**	**21,794**

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

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the company by the weighted average number of ordinary shares on issue during the year, excluding shares held as treasury stock. Diluted earnings per share assumes conversion of all dilutive potential ordinary shares in determining the denominator.

	2019	2018
Profit attributable to equity holders of the Company ($'000):		
From continuing operations	45,000	28,608
From discontinued operations	73,002	16,476
Total	**118,002**	**45,084**
Weighted average number of shares:		
Ordinary shares	140,108,891	139,869,055
Effect of dilutive ordinary shares (non-vested Share Scheme)	481,924	447,143
Weighted average number of Ordinary Shares for diluted earnings per share	**140,590,815**	**140,316,198**
Earnings per share (cents):		
Basic - continuing	32.1	20.5
Basic - discontinued	52.1	11.8
Basic - total	**84.2**	**32.2**
Diluted - continuing	32.0	20.4
Diluted - discontinued	51.9	11.7
Diluted - total	**83.9**	**32.1**

E. Financial Assets and Liabilities

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 FVTPL

Financial assets are classified at FVTPL if they are not measured at cost or 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, trade receivables and employee loans are classified in this category.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost, trade and other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the 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.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated under the heading of foreign exchange translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign exchange translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

E1. Trade and Other Receivables

	2019 $'000	2018 $'000
Trade receivables	13,400	17,646
Interest receivable	2,043	-
Other receivables	1,504	1,149
Owing by entity accounted for using the equity method	97	97
Goods and services tax	3,549	4,018
	20,593	**22,910**

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. The Group performs credit evaluations on trade customers, and 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 5 customers who represent 45.47% (2018: 5 customers who represent 49.06%) 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 provision for ECLs was not material 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	2,086	3,979
Two months	979	714
More than two months	1,827	4,034
	4,892	**8,727**

E2. Other Financial Assets

Current:

	2019 $'000	2018 $'000
At fair value:		
Foreign currency derivative instruments	4,571	3,921
	4,571	**3,921**

Non-current:

At fair value:		
Foreign currency derivative instruments	6,593	6,024
Shares in unlisted companies	221	211
At amortised cost:		
Employee loans	303	668
	7,117	**6,903**

E3. Trade and Other Payables

Trade payables	11,628	14,029
Accruals	4,433	9,599
Employee entitlements	3,782	3,654
	19,843	**27,282**

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 fair value of current and non-current borrowings is approximately equal to their carrying amount.

The Group signed Multi-Option Facility Agreements with Coöperatieve Rabobank U.A., New Zealand Branch ("Rabobank") and Westpac New Zealand Limited ("Westpac") on 22 March 2013. The total facility is $23,000,000 (2018: $80,000,000). At 31 December 2019 the undrawn amount under these facilities was $3,000,000 (2018: $48,000,000).

On 17 December 2018, the Group obtained an additional USD 11,635,000 term loan from Rabobank and USD 11,635,000 from Westpac. These facilities were utilised to finance the acquisition of Shelby JV LLC Group. The USD denominated loans are designated as a hedge of net investment in foreign operations.

The floating interest rate is 2.03% to 3.06% (2018: 2.87% to 3.16%) and the term borrowing facility expiry date is 1 July 2021. Seasonal facility presented as current borrowings is due for repayment within one year. The bank facilities are secured by a first ranking security interest granted by each of the Charging Group* Companies over all its present and after-acquired property (including proceeds) and a first ranking security interest over any of the Charging Group Companies present and future assets and undertakings which are not personal property. The bank facilities are also secured by first and exclusive registered mortgages over property comprising coolstores, orchards and industrial and commercial property owned by members of the Charging Group.

*Charging Group Companies as at 31 December 2019 are Scales Corporation Limited, Scales Holdings Limited, Mr Apple New Zealand Limited, New Zealand Apple Limited, Geo.H.Scales Limited, Meateor Foods Limited, Scales Logistics Limited and Meateor Group Limited.

The Multi-Option Facility Agreements with the Group's banks include 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.

E4. Borrowings (continued)

	Seasonal facility		Term borrowings	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Seasonal (current) and term (non-current) borrowings:				
Opening balance	2,000	6,500	64,664	40,000
Drawdowns	79,000	67,500	-	33,945
Repayments	(81,000)	(72,000)	(10,000)	(10,000)
Effect of foreign currency translation	-	-	(113)	719
	-	**2,000**	**54,551**	**64,664**

E5. Other Financial Liabilities

Current financial liabilities at fair value:

	2019	2018
	$'000	$'000
Foreign currency derivative instruments	785	2,662
Interest rate swap contracts and forward rate agreements	537	577
Put option	3,055	2,424
	4,377	**5,663**

Non-current financial liabilities at fair value:

Foreign currency derivative instruments	1,459	4,646
Interest rate swap contracts and forward rate agreements	762	780
Put option	1,745	2,088
	3,966	**7,514**

On 11 January 2016 the Group increased its shareholding in Fern Ridge Produce Limited ("Fern Ridge") 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 Fern Ridge profits, but with a minimum value equivalent to that paid to the selling shareholders.

On 20 December 2018 the Group acquired 60% of Shelby JV LLC and its subsidiaries Shelby Foods LLC, Shelby Exports Inc, Shelby Cold Storage LLC, Shelby Trucking LLC and Shelby Properties LLC (collectively, "Shelby Group").

As part of the transaction, the Company entered into an agreement with the vendor whereby the vendor has an option to put a further 5% of total units in Shelby Group to Scales at a value based on a multiple of Shelby Group EBITDA. The obligation to acquire the ownership interest under the put option is included in other financial liabilities.

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:

	Fixed Interest Rate		**Notional Principal Amount**		**Fair Value**	
	2019	2018	2019	2018	2019	2018
	%	%	$'000	$'000	$'000	$'000
Maturity date - Interest rate swap contracts:						
Within one year	-	3.05	-	35,000	-	(241)
Two to five years	3.93	3.93	20,000	20,000	(1,299)	(1,116)
After five years	-	-	-	-	-	-
			20,000	**55,000**	**(1,299)**	**(1,357)**

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.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates. The main source of hedge ineffectiveness in these hedge relationships (which is not material) is the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap contract, which is not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at reporting date was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Impact on net profit after tax assumes that none of the floating interest rate borrowings were hedged.

	2019		**2018**	
	+1%	-1%	+1%	-1%
	$'000	$'000	$'000	$'000
Impact on net profit after tax	(187)	187	(427)	427
Impact on cash flow hedge reserve net of tax	371	(389)	598	(632)

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:

	2019		**2018**	
	Contract Value	Fair Value	Contract Value	Fair Value
	$'000	$'000	$'000	$'000
Sale commitments forward foreign exchange contracts	210,587	5,224	204,693	(1,308)
Sale commitments foreign exchange options	90,410	3,696	168,079	3,945

E7. Foreign Currency Risk (continued)

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 2020 to 2024 financial years at which stage the amount deferred in equity will be released into profit or loss.

For hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates. The Group uses the hypothetical derivative method for the hedge effectiveness assessment and measurement of hedge ineffectiveness. As for the hedge of the net investment in Meateor US LLC sub-group, the Group assesses effectiveness by comparing the nominal amount of the net assets designated in the hedge relationship with the nominal amount of the hedging instrument. This is a simplified approach because the currency of the exposure and hedging instruments perfectly match and the Group excludes from the designation the foreign currency basis spread.

The following table demonstrates the sensitivity to a reasonably possible change of 5% in the value of New Zealand dollar against other foreign currencies, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The impact on the Group's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges.

	2019		2018	
	+5%	-5%	+5%	-5%
	$'000	$'000	$'000	$'000
Impact on net profit after tax	(214)	194	(284)	257
Impact on cash flow hedge reserve net of tax	(10,861)	10,309	(11,846)	10,960

E8. Categories of Financial Instruments

	2019	2018
	$'000	$'000
Financial assets:		
Amortised cost	35,979	22,350
Derivative instruments in designated hedge accounting relationships	11,164	9,945
Fair value through profit or loss	221	211
	47,364	**32,506**
Financial liabilities:		
Amortised cost	88,910	110,994
Derivative instruments in designated hedge accounting relationships	3,543	8,665
Fair value through profit or loss	4,800	4,512
	97,253	**124,171**

The carrying amount of financial instruments at amortised cost appoximates their fair value.

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 $'000	Four months to one year $'000	One to five years $'000	Total $'000
2019				
Trade and other payables	19,843	-	-	19,843
Dividend declared	13,328	-	-	13,328
Put options	3,055	-	1,745	4,800
Borrowings	410	1,230	55,366	57,006
Interest rate swaps and forward rate agreements	198	595	1,244	2,037
	36,834	**1,825**	**58,355**	**97,014**
2018				
Trade and other payables	27,282	-	-	27,282
Dividend declared	13,299	-	-	13,299
Put options	2,424	-	2,088	4,512
Borrowings	2,593	1,797	65,862	70,252
Interest rate swaps and forward rate agreements	323	968	2,033	3,324
	45,921	**2,765**	**69,983**	**118,669**

F. Group Structure

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:

- subsidiaries;
- the sale of Polarcold Stores Limited and Whakatu Coldstores Limited.

F1. Subsidiary Companies

Subsidiary Companies:	Principal Activity	Country of Incorporation	Holding 2019	Holding 2018	Balance Date
Fern Ridge Produce Limited	Trading company	New Zealand	72.88%	72.88%	31 December
Geo. H. Scales Limited	Non trading company	New Zealand	100%	100%	31 December
Longview Group Holdings Limited	Non trading company	New Zealand	100%	100%	31 December
Meateor Foods Australia Pty Limited	Trading company	Australia	100%	100%	31 December
Meateor Foods Limited	Trading company	New Zealand	100%	100%	31 December
Meateor Group Limited	Holding company	New Zealand	100%	100%	31 December
Meateor US LLC	Holding company	United States	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
Scales Employees Limited	Custodial company	New Zealand	100%	100%	31 December
Scales Holdings Limited	Holding company	New Zealand	100%	100%	31 December
Scales Logistics Limited	Freight consolidator	New Zealand	100%	100%	31 December
Scales Logistics Australia Pty Ltd	Freight consolidator	Australia	100%	100%	31 December
Selacs Insurance Limited	Insurance company	New Zealand	100%	100%	31 December
Shelby Cold Storage, LLC	Coldstore operator	United States	60%	60%	31 December
Shelby Exports, Inc	Non trading company	United States	60%	60%	31 December
Shelby Foods, LLC	Trading company	United States	60%	60%	31 December
Shelby JV LLC	Holding company	United States	60%	60%	31 December
Shelby Properties LLC	Non trading company	United States	60%	60%	31 December
Shelby Trucking LLC	Trading company	United States	60%	60%	31 December
Polarcold Stores Limited	Coldstore operator	New Zealand	0%	100%	31 December
Whakatu Coldstores Limited	Non trading company	New Zealand	0%	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. Discontinued Operations

On 9 May 2018 the Company announced an agreement to sell its cold storage businesses, Polarcold Stores Limited and Whakatu Coldstores Limited (which were merged on 1 January 2018 under the Polarcold brand). The sale, for consideration of $151.4 million, was to Emergent Cold, a global cold chain company. The sale became effective from 1 June 2018 and settled on 17 May 2019. All earnings post 1 June 2018 accrued to the purchaser. Interest was charged on the purchase price until the sole condition, being OIO approval, was satisfied on 17 May 2019. These 2 elements were reflected as a purchase price adjustment and have been factored into the consideration referred to above.

On 13 August 2018 the Company entered into an unconditional agreement to sell its bulk liquid storage business, Liqueo Bulk Storage Limited. Settlement occurred on the same date. The sale, for consideration of $20 million, was to a company related to the SBT Group, a Taranaki based Group with interests in rendering and animal by-products.

The results of discontinued operations are set out below:

	2019 $'000	2018 $'000
Revenue	24,491	62,164
Cost of sales	(9,502)	(25,873)
	14,989	**36,291**
Other operating expenses including transaction costs	(7,894)	(21,968)
EBITDA	**7,095**	**14,323**
Amortisation	-	(109)
Depreciation	-	(2,066)
EBIT	**7,095**	**12,148**
Finance revenue	-	15
Profit before tax from discontinued operations	**7,095**	**12,163**
Income tax expense	(2,224)	(3,861)
Profit after tax from discontinued operations	**4,871**	**8,302**
Gain on disposal net of tax	68,131	8,174
Profit from discontinued operations net of tax attributable to equity holders	**73,002**	**16,476**

The net cash flows pertaining to the entities referred to above are as follows:		
Operating	5,972	13,612
Investing	(1,140)	(4,908)
Financing	-	-
Net cash inflow	**4,832**	**8,704**

Total consideration received on 17 May 2019 in respect of cold storage businesses is set out below:	$'000
Sale and purchase price	151,400
Plus: Working capital and other adjustments to sale and purchase price	3,362
Plus: Interest payable on purchase price	5,737
Less: Cash dividends received post 1 June 2018	(8,000)
	152,499

All of the above consideration was received in cash. There was no non-cash consideration received.

F2. Discontinued Operations (continued)

Assets and liabilities in the cold storage businesses as at the loss of control date (17 May 2019):

Assets	$'000
Cash and bank balances	3,617
Trade and other receivables	11,695
Prepayments	150
Property, plant and equipment	88,285
Computer software	1,091
	104,838
Liabilities	
Trade and other payables	5,446
Current tax liabilities	4,729
Deferred tax liabilities	11,902
	22,077
Net assets directly associated with disposal group	**82,761**

Gain on disposal net of tax:	
Net proceeds on disposal	152,499
Less: net assets disposed	(82,761)
Less: tax payable on disposal (related to interest payable on purchase price)	(1,607)
	68,131

G. Other

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

G1. Capital Commitments

	2019 $'000	2018 $'000
Commitments entered into in respect of apple trees as at balance date	1,192	1,199

G2. Leases

Right-of-use assets

	Land and buildings $'000	Plant and equipment $'000	Office equipment motor and vehicles $'000	Total $'000
Cost				
Balance at 1 January 2019	77,651	294	5,025	82,970
Additions	2,440	136	1,053	3,629
Balance at 31 December 2019	**80,091**	**430**	**6,078**	**86,599**
Accumulated depreciation				
Balance at 1 January 2019	-	-	-	-
Depreciation expense	6,013	216	1,595	7,824
Balance at 31 December 2019	**6,013**	**216**	**1,595**	**7,824**
Net book value				
As at 31 December 2019	**74,078**	**214**	**4,483**	**78,775**

	2019 $'000
Amounts recognised in profit and loss	
Depreciation expense on right-of-use assets	7,824
Interest expense on lease liabilities	3,075
Expense relating to short-term leases and low-value assets	2,089
Lease liabilities	
Current	9,427
Non-current	70,713

G2. Leases (continued)

	2019
	$'000
Maturity analysis	
Year 1	9,427
Year 2	8,850
Year 3	8,098
Year 4	7,330
Year 5	6,779
Onwards	65,077
	105,561
Cash outflows for leases	
Interest on lease liabilities	3,075
Repayments of lease liabilities	6,459
Short-term leases and low-value asset leases	2,089
	11,623

Disclosure required by NZ IAS 17 - the Group as lessee

Operating leases relate to coolstores, packhouses, 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 review clauses that provide for reviews at regular intervals and in the event that the Group exercises its options to renew.

	2018
Non-cancellable operating lease commitments:	$'000
Not later than 1 year	9,095
Later than 1 year and not later than 5 years	27,298
Later than 5 years	13,382

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.

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

	2019	2018
Key management personnel remuneration	$'000	$'000
Short-term employee benefits	2,956	3,002
Share-based payments	218	963
Post-employment benefits	104	111
	3,278	**4,076**

During 2019, 740,968 (2018: 379,082) shares were issued to key management personnel in accordance with the senior executive share scheme described in note D2.

Transactions with equity accounted entities		
Revenue from sale of goods	1,409	1,306
Revenue from services	2,564	1,322
Dividends received	1,500	1,000
Trade receivables at balance date	182	97

Short-term borrowings from non-controlling interest in Shelby JV LLC group obtained in December 2018 were fully repaid during the year.

G4. Contingent Liability

In December 2018 an insurance claim was notified to Selacs Insurance Limited, a wholly owned subsidiary of Scales Holdings Limited, which in turn is a wholly owned subsidiary of Scales Corporation Limited.

The claim arises in consequence of the collapse of the roof of a leased coldstore located in Hastings, Hawke's Bay.

The event is under investigation by specialists and has not yet been accepted.

The risk is fully reinsured, and in the event the claim is accepted and becomes payable, there will be no impact on net income or net assets of the Group.

No claim expense, reinsurance revenue, claim payable and reinsurance receivable have been recorded in the financial statements, except ex-gratia payments from reinsurers to the insured party recorded as claim expense and reinsurance revenue (as disclosed in Note B3).

G5. 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 NZ IFRS 16 *Leases*

This section summarises the effect of the change in accounting policy from the application of NZ IFRS 16 *Leases*.

Transition

NZ IFRS 16 *Leases* introduced a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. NZ IFRS 16 superseded the previous lease guidance including NZ IAS 17 *Leases* and the related interpretations when it became effective on 1 January 2019.

NZ IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

Furthermore, the classification of cash flows is also affected as operating lease payments under NZ IAS 17 were presented as operating cash flows; whereas under the NZ IFRS 16 model, the lease payments are split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

The Group applied NZ IFRS 16 on 1 January 2019 using the modified retrospective (full simplified) transition method. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate ("IBR") as at 1 January 2019. Right-of-use assets are measured equal to lease liabilities. Comparative periods presented were not restated.

The Group applied the practical expedients available under NZ IFRS 16 C3 (a) and (b). That is, instead of reassessing all contracts to identify leases using new NZ IFRS 16 guidance on transition date, all existing contracts that were previously identified as leases using the old NZ IAS 17 and NZ IFRIC 4 *Determining whether an arrangement contains a lease* guidance are treated as leases under NZ IFRS 16. Any contracts that were not identified as leases under NZ IAS 17 and NZ IFRIC 4 as at transition date, were not treated as leases upon adoption of NZ IFRS 16.

Most of the Group's non-cancellable operating lease commitments met the definition of a lease under NZ IFRS 16, and hence the Group recognised a right-of-use asset and a corresponding liability in respect of all these leases unless they qualified for low value or short-term lease exemptions upon the application of NZ IFRS 16. The expense that would previously be recorded in relation to operating leases moved from being included in operating expenses (and within EBITDA), to depreciation and finance expense for the periods beginning on or after 1 January 2019.

The impact on net earnings before income tax of an individual lease over its term remains the same, however, the new standard results in a higher interest expense in early years, and lower in later years of a lease, compared with the previous straight-line expense profile of an operating lease.

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR was determined based on the interest rate on the external borrowing facilities available to the Group (since those rates incorporate a risk-free rate for the primary economic environment the Group operates in and the credit spread specific to the Group), adjusted for the weighted average lease term by reference to the interest swap rates published by the Reserve Bank of New Zealand, adjusted for asset type and subsidiary credit spread.

The weighted average IBR applied to lease liabilities on 1 January 2019 was 3.82%.

The aggregate lease liability and right-of-use asset recognised in the statement of financial position at 1 January 2019 and the Group's operating lease commitment at 31 December 2018 can be reconciled as follows:

Lease liability recognised on transition	**$'000**
Future minimum lease payments under non-cancellable operating leases as at 31 December 2018	49,775
Future lease payments on renewal options that are reasonably certain	63,547
Future lease payments on short-term and low value leases	(2,525)
Effect of discounting	(27,827)
Lease liability as at 1 January 2019	**82,970**

The Group is reasonably certain it will exercise options to extend the lease on all material leases.

Right-of-use asset recognised on transition	**Nature of leased assets**	**Lease term**	**$'000**
Land and buildings	Orchards, packhouses, coolstores, office buildings	1-25 years	77,651
Plant and equipment	Labelling systems and vehicle monitoring systems	1-4 years	294
Office equipment and motor vehicles	Tractors, utes, forklifts, sprayers	1-5 years	5,025
Right-of-use asset as at 1 January 2019			**82,970**

In applying the modified retrospective approach, the Group has taken advantage of the following practical expedients:

- A single discount rate has been applied to portfolios of leases with reasonably similar characteristics; and
- Leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases (i.e. not recognised on balance sheet) even though the initial term of the leases from lease commencement date may have been more than twelve months.

New accounting policy from 1 January 2019

The Group as a lessee

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognised a right-of-use asset and a corresponding liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Group applies the practical expedient and recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the lease assets are consumed.

The lease liability is initially measured as the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its IBR.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under aguaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37.

Right-of-use assets are depreciated over the shorter period of either the lease term or the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies NZ IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss under this standard.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Administration and operating expenses" in the statement of comprehensive income.

As a practical expedient, NZ IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SCALES CORPORATION LIMITED

Opinion

We have audited the consolidated financial statements of Scales Corporation Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2019, 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 46 to 87, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and 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 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 million.

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 Unharvested Agricultural Produce	
Unharvested agricultural produce growing on bearer plants (e.g. fruit), is measured at fair value less costs to sell in accordance with NZ IAS 41 *Agriculture*. The Group's unharvested agricultural produce was valued at $21.6 million at balance date as described in note C2. A revaluation gain of $0.3 million is recorded in profit or loss. Fair value less cost 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, and risk-adjusting discount rates, as well as costs to harvest and sell. 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 considered to be 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 by comparing to the actual results. • Checking the mechanical accuracy of the discounted cash flow model.
Valuation of Apple Trees	

As disclosed in note C1 the Group has apple trees valued at $33.9 million. A revaluation gain of $1.4 million has been recorded in other comprehensive income.
 	
The Group has a policy of recording apple trees at fair value with valuations performed with sufficient regularity that the carrying amount at the end of a reporting period does not differ materially from their fair value.
 	
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.
 	
Valuation of apple trees is considered to be a key audit matter due to the significance of the assets to the Group's consolidated statement of financial position, and the level of judgement involved in valuing the apple trees.
	Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the model.
	
	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 methods applied were reasonable.
	• 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 valuation.
	• Assessing the valuation methodology for consistency with the the most recent valuation ("2018 valuation") and determining whether any changes to the methodology were appropriate.
	• Challenging the reasonableness of the key assumptions by comparing them to the 2018 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 the 2018 valuation. We compared the production levels per hectare to external production data as well as internal production data for the previous season.
	  – We tested the orchard gate returns by comparing these to actual sales returns received during the previous year.
	  – We challenged orchard costs by comparing orchard costs to the 2018 valuation and available market data.
	  – We challenged the discount rates by comparing them with 2018 valuation discount rates and considering the risks associated with the orchards.
	• Checking the mechanical accuracy of the discounted cash flow models on a sample basis.

Other information

The directors are responsible on behalf of the Group 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 do 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/assurance-standards/auditors-responsibilities/audit-report-1/

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

Paul Bryden, Partner
for Deloitte Limited
Christchurch, New Zealand
25 February 2020

CORPORATE GOVERNANCE STATEMENT

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. This Corporate Governance Statement provides an overview of the Company's governance framework. It is structured to follow the NZX Corporate Governance Code (NZX Code) and discloses the practices relating to the NZX Code's recommendations.

The Board's view is that Scales complies with the corporate governance principles and recommendations set out in the NZX Code. The Board believes our governance structures, in particular our approach to remuneration, meets our strategic objectives. In forming our conclusions we have sought external feedback from shareholders and advisors to challenge our thinking and validate our findings, which we have appreciated.

The Company also complies with the corporate governance requirements of the NZX Main Board Listing Rules (NZX Listing Rules). The Board regularly reviews and assesses Scales' governance structures and processes to ensure that they are consistent with best practice.

Scales transitioned to the new NZX Listing Rules with effect from 1 May 2019. Accordingly, this Corporate Governance Statement has been prepared in accordance with the NZX Code dated 1 January 2019.

Scales' key corporate governance documents referred to in this statement, including charters and policies, can be found at www.scalescorporation.co.nz/about-us/governance.

Scales' Corporate Governance Code (the Scales Code) was reviewed and updated in February 2019 and is reviewed annually. This Corporate Governance Statement was approved by the Board on 20 March 2020.

Principle 1 – Code of Ethical Behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

RECOMMENDATION 1.1

The Board should document minimum standards of ethical behaviour to which the issuer's Directors and employees are expected to adhere (a Code of Ethics).

Code of Ethics

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

The Code of Ethics covers a wide range of areas including:

- Standards of behaviour.
- Conflicts of interest.
- Proper use of Company information and assets.
- Accepting gifts.
- Delegated authorities.
- Compliance with laws and policies.
- Reporting concerns.
- Corporate opportunities.

The procedure for advising the Company of a suspected breach is set out in the Code of Ethics. No breaches were identified during the year.

Every new Director, employee and contractor is to be provided with a copy of the Code of Ethics and must confirm that they have read and understand the Code of Ethics. The Code of Ethics is also available on the Company's website.

During 2019 there were a number of initiatives undertaken in relation to ethics. One of these intiatives, as part of the Internal Audit programme, was further training in Anti-Bribery and Corruption for the Company's senior management. The Board sees this first step in a wider training programme as meeting the NZX Code's ethics training recommendation.

The Code of Ethics is subject to biennial review by the Board.

RECOMMENDATION 1.2

An issuer should have a financial product dealing policy which applies to employees and Directors.

Share 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 approval being required before trading can occur. Approval is required to be obtained from the Chair, other Directors, CEO or the Chief Financial Officer depending on who is trading. A blackout period is imposed for all Directors and employees between the end of the half year and full year and the release to NZX of the result for that period.

The policy provides that shares may not be traded at any time by any individual holding material information. The full procedures are outlined in the Securities Trading Policy and Guidelines, which is contained in the Scales 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.

Principle 2 – Board Composition & Performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

RECOMMENDATION 2.1

The Board of an issuer should operate under a written charter which sets out the roles and responsibilities of the Board.

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 objectives. It has delegated day-to-day management of the Company to the Managing Director and the senior management team.

The main functions of the Board include to:

- Review and approve the strategic, business, risk, financial and ESG (Environmental, Social and Governance) plans prepared by Management.
- Monitor performance against the strategic, business, risk, financial and ESG 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 risk, financial and ESG plans.

Details of the Board's role, composition, responsibilities, operation, policies and committees are provided in the Scales Code.

RECOMMENDATION 2.2

Every issuer should have a procedure for the nomination and appointment of Directors to the Board.

Director nomination and appointment

The Board is responsible for appointing Directors. The Nominations and Remuneration Committee manages the appointment process for new Directors and the re-election of existing Directors in order to make a recommendation to the Board. When considering an appointment, the Committee will undertake a thorough check of the candidate and his or her background. Where the Board determines a person is an appropriate candidate, shareholders are notified of that and are provided with all material information that is relevant to the decision on whether to elect or re-elect a Director.

The Nominations and Remuneration Committee also has responsibility for reviewing the composition of the Board to ensure that the Company has access to the most appropriate balance of skills, qualifications, experience, perspectives and diversity to effectively govern the Company.

Using the Board skills matrix the Board has determined that to operate effectively and to meet its responsibilities it requires competencies in disciplines including executive leadership and strategy, governance, agriculture, logistics, finance and capital markets, risk and compliance, legal and regulatory, people, digital and technology, export, retail and doing business in China.

The current mix of skills and experience is considered appropriate for the responsibilities and requirements of governing Scales. The Board looks to strengthen its oversight of issues in all disciplines, as required, via expert advice.

As at 31 December 2019 the Board has a majority of Independent Directors. Director independence is considered on a case-by-case basis and is monitored on an ongoing basis.

RECOMMENDATION 2.3

An issuer should enter into written agreements with each newly appointed Director establishing the terms of their appointment.

Letter of appointment

All new directors will enter into a written agreement with Scales setting out the terms of their appointment.

RECOMMENDATIONS 2.4, 2.8 AND 2.9

Every issuer should disclose information about each Director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests. A majority of the Board should be independent Directors.

The Chair should be independent.

Board of Directors

A profile of each of the Directors is on pages 41 – 42 of this report. The profiles include information on the year of appointment, skills, experience and background of each Director.

A majority of the Board are Independent Directors. Tim Goodacre is the Independent Chair of Scales. Nick Harris, Mark Hutton, Alan Isaac and Nadine Tunley are Independent Directors. Tomakin Lai is the Vice President, Chief Financial Officer and Company Secretary of China Resources Enterprise, Limited, the parent company of China Resources Ng Fung Limited, holder of a 15.19% shareholding in the Company. Mr Lai is a non-executive Director.

Andy Borland is the Managing Director and Chief Executive Officer (CEO) of Scales.

The roles of Board Chair, Audit and Risk Management Committee Chair and CEO are not held by the same person.

The Board determines annually on a case-by-case basis on the advice of the Nominations and Remuneration Committee who, in its view, are Independent Directors. The guidelines set out in the NZX Corporate Governance Code are used for this purpose.

Ownership of Scales shares by Directors is encouraged rather than being a requirement. Directors' ownership interests are disclosed at page 107.

The Board does not have a tenure policy however it recognises that a regular refreshment programme leads to the introduction of new perspectives, skills, attributes and experience.

	Director period of appointment		
	0-3 years	3 – 9 years	9 years +
Number of Directors	2	5	0

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 2019 are included in the Director Disclosures section on page 107.

RECOMMENDATION 2.5

An issuer should have a written diversity policy which includes requirements for the Board or a relevant Committee of the Board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them.

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. A formal Diversity Policy has been adopted by the Board.

The Board seeks diversity in the skills, attributes, perspectives and experience of its members across a broad range of criteria so as to represent the diversity of shareholders, business types and regions in which Scales operates. Diversity, both at Board level and throughout the company, is actively considered and reviewed by the Board.

Scales participates in the Institute of Directors' Future Directors programme as part of our commitment to further develop the skillsets available within the agriculture sector. Our fourth and current Future Director, Jemma McCowan, will sit on the Board as a participant in this programme. Jemma participates in discussions at all Board meetings but does not participate in decision making. The programme is designed to give talented young aspiring Directors exposure to a company Board, whilst also giving the host company a fresh perspective.

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.

Responsibility for workplace diversity and the setting of measurable objectives is held by the Nominations and Remuneration Committee. During 2019 the following objectives were set by the Committee:

- Continue to strive to ensure strong female candidates are identified in the recruitment process for all Board and senior executive roles;
- Review and encourage participation of under-represented groups in our leadership training programmes;
- Complete a review of our gender pay equality across roles, age and salary bands; and
- Make access to courses in Te Reo Maori language available to all staff, and also encourage the learning of other languages that are relevant to employees' roles.

In accordance with the objectives gender pay equality across the Company will be reviewed in 2020.

The gender composition of Scales' Directors, Senior Managers and Management Team (comprising the top 2 layers of management) was as follows:

	As at 31 December 2019		As at 31 December 2018	
Position	**Female**	**Male**	**Female**	**Male**
Director	1 (14%)	6 (86%)	0 (0%)	6 (100%)
Senior Managers	1 (20%)	4 (80%)	1 (17%)	5 (83%)
Management Team (excluding Senior Managers)	4 (27%)	11 (73%)	12 (35%)	22 (65%)

RECOMMENDATION 2.6

Directors should undertake appropriate training to remain current on how to best perform their duties as Directors of an issuer.

DIRECTOR TRAINING

The Board ensures that there is appropriate training available to all Directors to enable them to remain current on how best to discharge their responsibilities and keep up to date on changes and trends in areas relevant to their work. Directors are provided with industry information and receive copies of appropriate Company documents to enable them to perform their role. The Board has allocated funding of $1,000 per annum for each Director to provide resources to help develop and maintain skills and knowledge.

The Board also ensures that new Directors are appropriately introduced to Management and the businesses.

RECOMMENDATION 2.7

The Board should have a procedure to regularly assess Director, Board and Committee performance.

Board Performance Evaluation

The Board annually assesses its effectiveness in carrying out its functions and responsibilities. The Chair of the Board leads the review and evaluation of the Board as a whole, and of the Board Committees, against their charters. The Chair of the Board also engages with individual Directors to evaluate and discuss performance and professional development.

Principle 3 – Board Committees

The Board should use Committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.

Board Committees

The Board has 4 formally constituted committees – the Audit and Risk Management Committee, the Nominations and Remuneration Committee, the Health & Safety and Sustainability Committee and the Finance and Treasury Committee. Each Committee focuses on specific areas of governance and together they strengthen the Board's oversight of Scales. Committee membership is reviewed annually.

Each Committee has a written charter that is approved by the Board, which sets out its mandate. The charters are reviewed annually with any proposed changes recommended to the Board for approval. The charters are included in the appendices within the Scales Code.

Annually each Committee agrees a programme of matters to be addressed over the following 12 month period. The Committees each annually review their performance against the Committee charter and objectives for the year and report their findings to the Board.

Attendance at Meetings

The table below sets out Director attendance at Board and Committee meetings during the year ended 31 December 2019.

	Board		Audit and Risk Management Committee		Nominations and Remuneration Committee		Finance and Treasury Committee		Health & Safety and Sustainability Committee	
	Eligible to attend	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**
Andrew Borland	7	7	-	-	-	-	4	4	5	5
Tim Goodacre	7	7	-	-	5	5	-	-	-	-
Nick Harris	7	7	5	5	-	-	-	-	5	5
Mark Hutton	7	7	5	5	5	5	4	4	-	-
Alan Isaac	7	7	5	5	-	-	-	-	-	-
Lai Po Sing, Tomakin*	7	6	-	-	-	-	-	-	-	-
Nadine Tunley*	6	5	-	-	-	-	-	-	3	3

*Lai Po Sing, Tomakin was appointed to the Board on 28 January 2019. Nadine Tunley was appointed to the Board on 26 February 2019, and was appointed to the Health & Safety and Sustainability Committee on 11 June 2019.

RECOMMENDATION 3.1

An issuer's Audit Committee should operate under a written charter. Membership on the Audit Committee should be majority independent and comprise solely of non-executive Directors of the issuer. The Chair of the Audit Committee should not also be the Chair of the Board.

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.
- To oversee the appointment and performance of the external auditor.

Members of the Committee are appointed by the Board and must comprise solely non-executive Directors, a majority of which must be Independent Directors. The current members of the Committee are Alan Isaac (Chair), Nick Harris and Mark Hutton. All members of the Audit and Risk Management Committee are Independent Directors. Alan Isaac is a former national chair of KPMG. The Chair of the Audit and Risk Management Committee and the Board Chair are different people.

The Committee met on 5 occasions during the year. The agenda items for each meeting generally relate to financial governance, external financial reporting, external audit, internal audit, risk management, compliance and insurance.

RECOMMENDATION 3.2

Employees should only attend Audit Committee meetings at the invitation of the Audit Committee.

Meeting Attendance

The Managing Director and Chief Financial Officer are regularly invited to attend Audit and Risk Management Committee meetings.

RECOMMENDATION 3.3 AND 3.4

An issuer should have Nomination and Remuneration Committees which operate under written charters.

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 and Committee 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 (Chair) and Tim Goodacre.

Management attends Nomination and Remuneration Committee meetings if invited by the Committee. The Committee met on 5 occasions during the year.

RECOMMENDATION 3.5

An issuer should consider whether it is appropriate to have any other Board Committees as standing Board Committees. All Committees should operate under written charters.

Health & Safety and Sustainability Committee

The Board's commitment to ensuring a safe and healthy workplace for staff, contractors and visitors led to it establishing a Health and Safety Committee. In recognition of the increasing focus on, and commitment to, sustainability by the Company, during 2019 the Board widened the Committee's responsibilities to include sustainability issues.

The primary functions of the Committee are:

- To assist the Board to provide leadership and policy for health & safety and sustainability.
- To assist the Board to fulfil its responsibilities and to ensure compliance with all legislative and regulatory requirements in relation to the health and safety practices of the Company as those activities affect employees and contractors.
- To support the ongoing improvement of health and safety in the workplace.
- To support sustainability initiatives across the Company.

Members of the Committee are appointed by the Board. The Committee must be chaired by an Independent Director. The current members of the Committee are Nick Harris (Chair), Andy Borland and Nadine Tunley.

The Committee met on 5 occasions during the year.

Finance and Treasury Committee

Scales operates in a capital intensive sector and is one of New Zealand's leading horticultural exporters with material foreign currency receipts. The Board considers that both with the size of Scales' existing activities and the current implementation of the Strategy Refresh it is appropriate to have a Board Committee to further focus on this part of the business.

The primary functions of the Committee are to:

- Review the allocation of capital.
- Oversee the Company's capital and treasury risk management.
- Monitor continuous disclosure processes to ensure their integrity, transparency and adequacy, and that they are in accordance with Company policies.
- In addition, the Committee will oversee takeover protocols and, if required, establish a Takeovers Committee comprising of Independent Directors.

Members of the Committee are appointed by the Board. The Committee must be chaired by an Independent Director. The current members of the Committee are Mark Hutton (Chair) and Andy Borland. The committee also obtains ongoing advice from external advisors.

The Committee met on 4 occasions during the year.

RECOMMENDATION 3.6

The Board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer.

Takeover Protocols

The Board has documented and adopted a series of protocols to be followed in the event of a takeover offer being made, including communication between insiders and any bidder. A committee of Independent Directors would be formed and would have responsibility for managing the takeover in accordance with the Board protocols and the New Zealand Takeovers Code.

Principle 4 – Reporting and Disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

RECOMMENDATION 4.1

An issuer's board should have a written continuous disclosure policy.

Shareholder Communications and Market Disclosure

Scales' Board is committed to the principle that high standards of reporting and disclosure are essential for proper accountability between the Company and its investors, employees and stakeholders.

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 a written Shareholder Communications and Market Disclosure Policy designed to ensure this occurs. The policy includes procedures intended to ensure that disclosure is made in a timely and balanced manner and in 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. Managers reporting to the Managing Director are required to provide the Chief Financial Officer with all relevant information that may be material and to regularly confirm that they have done so.

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.

RECOMMENDATION 4.2

An issuer should make its Code of Ethics, Board and Committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.

Governance Policies and Charters

Scales' key corporate governance documents, including charters and policies, can be found at www.scalescorporation.co.nz/about-us/governance.

RECOMMENDATION 4.3

Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks.

Financial and Non-Financial Reporting

Scales' Board is committed to ensuring integrity and timeliness in its financial reporting and in providing information to the market and shareholders which reflects a considered view on the present and future prospects of the Company.

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 and in shareholder reports.

The Audit and Risk Management Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness, balance and timeliness of financial statements. It reviews interim and annual financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with financial reporting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed and for which the Committee has responsibility were addressed during the period under review.

All interim and full-year financial statements are prepared in accordance with relevant financial standards.

Non-Financial Reporting

Both financial and non-financial disclosures are made at least annually, including reporting of material exposure to environmental, economic and social sustainability risks and other key risks. Scales has a strategic target to develop best-in-class sustainability reporting and to measure and report on key sustainability aspects affecting its businesses.

Scales' Sustainability Report is included in this report at pages 18 – 25, and provides details of the continuing growth and improvements in Scales' initiatives in this area. The Group-wide report identifies material sustainability topics, grouped under the headings Our People, Marketplace, and Our Environment.

Principle 5 - Remuneration

The remuneration of Directors and senior management should be transparent, fair and reasonable.

Remuneration Report

Introduction

This Remuneration Report outlines the Company's overall reward strategy for the year ended 31 December 2019 and provides detailed information on the remuneration arrangements in this period for the Directors of the Company, the CEO and other nominated executives.

The Company's Remuneration Policy may be amended from time to time and is reviewed at least once a year. The Company has also established a number of additional policies to support a strong governance framework and uphold ethical behaviour and responsible decision making.

Remuneration Philosophy

The Nominations and Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages for Directors, the CEO and nominated executives. The primary objectives of the Remuneration Policy are to provide a competitive, flexible and benchmarked structure that reflects market best practice. The policy is to ensure that the appropriate culture is maintained within the business, is tailored to the specific circumstances of the Company and reflects each person's duties and responsibilities so as to attract, motivate and retain high calibre people. This includes the company responsibility to monitor diversity and ensure pay equity.

The Nominations and Remuneration Committee reviews market data on remuneration structure and quantum. The remuneration packages of the CEO 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 CEO 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's share price meeting certain performance criteria, details of which are outlined below.

The Nominations and Remuneration Committee regularly assesses if the remuneration outcomes are both meeting these objectives and ensuring the outcomes are reasonable, considering the Company's actual performance.

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 CEO 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 2019 Annual Shareholders' Meeting shareholders approved an increase in the aggregate remuneration pool for non-executive Directors from $500,000 per annum to $600,000 per annum. This increase of the director fee pool reflected the appointment of an additional Director during the year.

The Board reviews its fees annually to ensure the Company's non-executive Directors are fairly remunerated for their services and recognising the level of skill and experience required to fulfil the role. The process involves benchmarking against a group of peer agribusiness companies. In addition, the Board reviews the Committee structure and appropriate level of resourcing required to make an on-going contribution to long term value creation.

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 base fee for services as a Director of the Company and an additional fee is also paid for being a member of the Board Committees. The payment of an additional fee recognises the additional time commitment and specific skills required by each Director who serves on those Committees. All Directors are also entitled to be reimbursed for costs associated with carrying out their duties, including a training allowance.

Fees payable to the non-executive Directors of the Company for the period 1 January 2019 to 31 December 2019 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	Fees for serving on Health & Safety and Sustainability Committee	Fees for serving on Finance and Treasury Committee
Tim Goodacre	$140,000 (Chair)	$0	$0	$0	$0	$0
Alan Isaac	$70,000	$0	$18,000 (Chair)	$12,000	$0	$0
Nick Harris	$70,000	$0	$6,000	$0	$9,000 (Chair)	$0
Mark Hutton	$70,000	$12,000 (Chair)	$6,000	$0	$0	$9,000 (Chair)
Lai Po Sing, Tomakin (appointed 28 January 2019)	$64,630	$0	$0	$0	$0	$0
Nadine Tunley (appointed 26 February 2019)	$59,260	$0	$0	$0	$3,329	$0
Weiyong Wang (resigned 28 January 2019)	$5,370	$0	$0	$0	$0	$0

(a) Remuneration of the CEO and Employees

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 2019 to 31 December 2019 is set out in the remuneration bands detailed below:

Amount of Remuneration	Employees
$100,001 - $110,000	4
$110,001 - $120,000	5
$120,001 - $130,000	13
$130,001 - $140,000	8
$140,001 - $150,000	10
$150,001 - $160,000	4
$160,001 - $170,000	4
$170,001 - $180,000	2
$180,001 - $190,000	1
$190,001 - $200,000	1
$200,001 - $210,000	3
$230,001 - $240,000	4
$250,001 - $260,000	2
$260,001 - $270,000	2
$270,001 - $280,000	1
$290,001 - $300,000	1
$300,001 - $310,000	1
$350,001 - $360,000	2
$420,001 - $430,000	1
$560,001 - $570,000	1
$690,001 - $700,000	1

As set out in further detail below, the total remuneration and value of other benefits paid to the CEO (including under the STI Scheme and LTI Scheme detailed below) for the year ended 31 December 2019 was $776,018 (2018: $1,079,259).

(b) Components of Compensation – CEO and Nominated Executives

(i) Structure

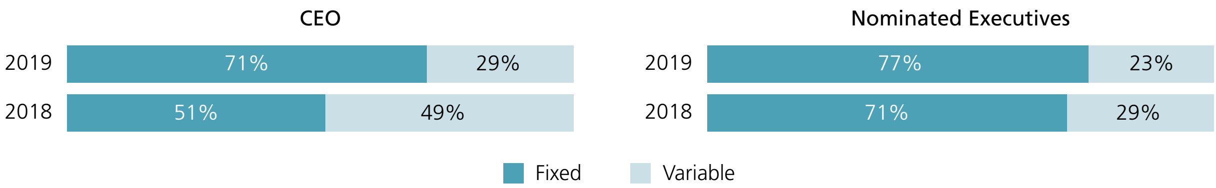
The Company aims to reward the CEO and nominated executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, so as to:

- Reward them for Company and business unit performance against targets set by reference to appropriate benchmarks and key performance indicators.
- Align their interests with those of shareholders.
- 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 with the proportion of fixed and variable components established for the CEO and for each nominated executive.

The remuneration packages for the CEO and nominated executives are all subject to Board approval, following recommendations from the Nominations and Remuneration Committee. During 2019 there were no material changes to the structure or targets for the fixed or STI remuneration. The changes adopted in 2018 were fully implemented.

The mix of fixed and variable 'at risk' remuneration payable in respect of 2019 and 2018 was as follows:



(ii) Fixed annual remuneration

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

The CEO 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 2019, the CEO received $547,498 (2018: $551,553) in fixed annual remuneration. The cash remuneration, STI and LTI Schemes are linked and fixed for a 3 year period.

(iii) Variable remuneration – STI Scheme

The current STI Scheme is directly linked to the achievement of the annual financial and operational targets. As such it can be viewed as a 'profit share' arrangement. The objective of the STI Scheme is to provide an additional incentive to the executive to achieve the targets and ensure that the cost to the Company is flexible and in line with the trading outcome for the current year.

Actual STI Scheme payments depend on achieving specific financial targets, determined by the Board to be aligned with targets communicated to shareholders. The targets are set at the beginning of the year and are also subject to a number of 'qualifying gates' including liquidity and ESG measures. The financial 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.

STI Scheme payments relating to the financial year ended 31 December 2019 are delivered as a taxable cash bonus and are payable on completion of the annual audited financial statements. It should be noted that the level of remuneration detailed in this report for the CEO includes the bonus paid in early 2019 relating to the 2018 financial year. The actual amount paid for all nominated executives in the STI Scheme for the 2018 year was $942,872 and the total liability for 2019 is $595,619, being 74% of the total pool for the year.

The STI Scheme payment for the CEO relating directly to the financial year ended 31 December 2019 has been approved for payment, with the CEO receiving $100,901 (2018: $144,000) being 70% of his maximum available bonus.

STI Scheme payment values are set as a percentage of base cash remuneration, being 30% for the CEO and between 10% and 30% for other nominated executives for the financial year ended 31 December 2019. For the financial year ended 31 December 2019 there were 31 nominated executives in the STI Scheme, a decrease of 16 from the 2018 year, largely due to the sale of Polarcold.

In addition to the STI Scheme the Board reserves the ability to pay ad hoc bonus payments to any employee where certain outcomes are considered by the Board to positively impact on long term success.

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 CEO and nominated executives' interests with those of shareholders.
- Help provide a long term focus.
- Retain high calibre senior employees by providing an attractive equity-based incentive that builds an ownership of the Company mindset.
- Encourage executives to think and act like owners.

The hurdle rate used for the LTI Scheme is an absolute share price growth hurdle, which is more challenging over time than a relative Total Shareholder Return (TSR) approach. This approach only rewards executives if long term shareholders also do well.

Under the LTI Scheme, the CEO 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 3 years from the date of issue. Once the shares vest, the employee still remains obligated to repay the outstanding balance of the loan. Often to fund the repayment of the outstanding loans, executives may, subject to the approved procedures, sell on market their LTI vested shares. Over the next 12 months a total of 314,713 shares vest on 5 May 2020 (as detailed in the table below). Alternatively, if an employee leaves employment before the expiry of the 3 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.

Although performance rights are the most prevalent LTI instrument in Australasia the company believes the issue of shares and loans is more relevant for Scales. The structure is well understood by executives and more closely aligns to the security held by shareholders. In addition, the economic return achieved by executives is more challenging under the current terms.

Each employee's loan amount (which determines how many shares will be acquired) is set as a percentage of their base cash remuneration and selected employees will be offered a loan for this amount if the criteria set by the Board are met. For the next 2 years of the LTI Scheme, until the 2020 allocation, the criterion is the achievement of a gross TSR of 20.0% over the reference share price. The reference share price for all new participants is set at the time of joining the scheme.

The Board has retained the discretion to vary the applicable criteria for each offer under the LTI Scheme.

LTI Scheme loan amounts are set as a percentage of base cash remuneration, being 30% for the CEO and 10%-20% for other nominated executives in respect of the financial year ended 31 December 2019. For the financial year ended 31 December 2019, there were 51 nominated executives in the LTI Scheme, an increase of 4 from the 2018 year.

In addition to the original LTI Scheme, selected executives have been provided with a one-off refresh opportunity to increase their participation in the share based LTI Scheme with additional shares being allocated over a 3 year period, commencing in 2018. The final allocation price is referenced to the share price at the time of implementation. For 2019 the total additional shares issued was 214,285 shares. This refresh allocation replaces the highly successful original IPO Allocation and the board believes is consistent with our objective to encourage executives to think and act like owners.

During the financial year ended 31 December 2019, 261,356 shares were allocated under the LTI Scheme relating to the 2018 financial year with matching interest free loans of $708,275, an average of $2.71 per share. The CEO will receive 45,000 shares in the Company under the LTI Scheme relating to the financial year ended 31 December 2019, compared to 53,137 shares relating to the previous year. As at the end of the financial year ended 31 December 2019, the total balance owing under the loans advanced to the CEO under the LTI Scheme was $977,775 and $1,628,137 to nominated executives. Note that under accounting treatment, loans relating to unvested shares are not recorded on the Company balance sheet.

In total, the CEO at year end held 365,614 shares under the LTI Scheme which are subject to vesting constraints.

As at year end total loans, for vested shares, which are now full recourse, of $244,092 remain outstanding and are recorded on the Company balance sheet. The executives are obligated to repay the outstanding loan balance on the sale of the shares or on termination of employment.

Total shares allocated under the scheme as at the end of the financial year ended 31 December 2019 are as follows:

Grant date	Vesting date	Exercise price ($)	Number of shares				
			Opening balance	Granted	Forfeited	Vested and exercised	Closing balance
22 April 2016 - FY15	22 April 2019	1.67	287,646	-	-	(287,646)	-
5 May 2017 - FY16A	5 May 2020	1.70	278,879	-	-	-	278,879
5 May 2017 - FY16B	5 May 2020	2.45	35,834	-	-	-	35,834
20 April 2018 - FY17A	20 April 2021	1.70	309,698	-	-	-	309,698
20 April 2018 - FY17B	20 April 2021	2.51	36,007	-	-	-	36,007
20 April 2018 - FY17C	20 April 2021	3.62	40,577	-	-	-	40,577
28 June 2018 - FY18R	28 June 2021	4.13	207,023	-	-	-	207,023
30 April 2019 – FY18	30 April 2022	2.71	-	261,356	-	-	261,356
28 June 2019 - FY19R	28 June 2022	4.06	-	214,285	-	-	214,285
Total			**1,195,664**	**475,641**	**-**	**(287,646)**	**1,383,659**

The total cost of the LTI Scheme relating to share allocations made during 2019 was $869,951. Under accounting standard IFRS 2 *Share Based Payments*, the total option value of each annual allocation is spread across the 3 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 2019 is $865,695. The total cost relating to each annual share allocation will be cumulative.

The total annual cost of the LTI Scheme relating to shares issued from 2014 to 2019 is detailed below. In addition, the annual allocation spread across the 3 years of the vesting period is as follows:

Financial Year	LTI Scheme Year	Allocation Cost at Grant Date	Amortisation Expense*
2014	IPO	$469,985	$65,000
2015	2014	$31,465	$167,850
2016	2015	$517,879	$269,719
2017	2016	$572,866	$388,732
2018	2017	$1,251,325	$846,796
2019	2018	$869,951	$865,695
2020*			$600,985
2021*			$331,489
2022*			$88,833

*The forecast years assume no further Allocations.

Non-Statutory remuneration

The statutory format in which companies are required to present remuneration data may make it difficult for shareholders to understand the total remuneration actually earned by nominated executives in any year. In addition to the timing and recording of STI Scheme payments, the requirement for share based payments to be calculated at the time of grant (not vesting) and accrued over the vesting period may not then reflect what nominated executives actually received or became entitled to during the financial year under review.

The following table summarises the total value of vested shares actually received by nominated executives on the date of vesting and can be compared to the Allocation Cost recorded above.

The value recorded in the following table for each allocation highlights the amount by which the share price on the vesting date exceeded the performance targets.

Financial Year	LTI Scheme Year	Value at Vesting Date	Share Price at Vesting Date
2017	IPO	$3,245,760	$3.45
2018	2014	$352,066	$4.75
2019	2015	$1,110,314	$5.01

(iv) Employee share ownership scheme

At the time of the Company's IPO, 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.

Principle 6 – Risk Management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

RECOMMENDATION 6.1

An issuer should have a risk management framework for its business and the issuer's Board should receive and review regular reports.

Risk Management Framework

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 Audit and Risk Management Committee has overall responsibility for ensuring that the Company's risk management framework is appropriate and that it appropriately identifies, considers and manages risks.

Risk management is an integral part of Scales' business. A risk management framework incorporating a risk register is used to identify those situations and circumstances in which the Company may be materially at risk and for which risk mitigation activities are appropriate. This approach is intended to embed a comprehensive, holistic, Group-wide culture of risk awareness in senior management, supported by a consistent method of identifying, assessing, controlling, monitoring and reporting existing and potential risks to Scales' business.

The objectives of the framework are to:

- Provide a consistent and structured way to manage risk across the Company;
- Ensure the Company manages effectively the risks it faces in achieving its objectives; and
- Ensure our people are aware of and meet their responsibilities to identify, evaluate and treat the risks that may prevent or restrict the Company from achieving its objectives.

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. A risk management policy is overseen by the Managing Director and supports a comprehensive approach to the management of those risks identified as material to the Company's operations. Risk management is a standing item on the agenda for Audit and Risk Management Committee meetings, with detailed reports provided by management.

The Managing Director and Chief Financial Officer have provided the Board, through the Audit and Risk Management Committee, with assurances that, in their opinion, financial records have been properly maintained, that the financial statements comply with those accounting standards under which Scales must report and that the statements give a true and fair view of Scales' financial position and performance. These representations are given on the basis that a sound system of internal controls and risk management is operating effectively in all material respects in relation to financial reporting.

Insurance

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 where risk to its assets and business can be insured at a reasonable cost. It also operates a captive insurance subsidiary, Selacs Insurance Limited. Selacs Insurance accesses reinsurance, for the benefit of the Company, in the London insurance market.

RECOMMENDATION 6.2

An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management.

Health and Safety

The Health & Safety and Sustainability Committee was initially established to assist the Board to meet its responsibilities under the Health & Safety at Work Act 2015. In particular, the Committee is responsible for ensuring that health and safety is given an appropriate level of focus across the Scales Group by regularly reviewing the assurance processes around risk assessment and mitigation, safety systems, staff capability, staff competency, safety leadership and safety culture. Detailed reporting is provided to the Committee on lead and lag indicators including health and safety incidents, injury rates by severity, local site health and safety committee meetings, and sick leave. The findings of independent audit reports are provided to the Committee. Further information is included in the Sustainability Report on pages 18 – 25.

Principle 7 – Auditors

The Board should ensure the quality and independence of the external audit process.

RECOMMENDATION 7.1 AND 7.2

The Board should establish a framework for the issuer's relationship with its external auditors.

The external auditor should attend the issuer's Annual Shareholders' Meeting to answer questions from shareholders in relation to the audit.

External Auditor

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:

- Appointment 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 lead and engagement partner rotation.
- Hiring of staff from the external auditor.
- Relationships between the external auditor and the Company.
- Reporting on fees and non-audit work.

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

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

Deloitte Limited is the Company's external auditor. Under best practice rotation rules, Paul Bryden has replaced Michael Wilkes as audit engagement partner for the 2019 audit. Paul was previously the audit engagement partner for the 2013 to 2015 audits.

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 external auditor has provided the Audit and Risk Management Committee with written confirmation that, in its view, it was able to operate independently during the year.

Fees paid to the external auditors are included in note B2 of the notes to the financial statements. A total of $317,649 was paid for assurance-related services. There was no non-assurance work carried out by the external auditors during the year. All non-assurance services provided must have the prior approval of the Audit and Risk Management Committee.

The effectiveness, performance and independence of the external auditors is reviewed by the Audit and Risk Management Committee. The auditor is regularly invited to meet with the Committee including without Management present.

The auditor has been invited to attend the Annual Shareholders' Meeting and will be available to answer questions about the audit process and the independence of the auditor.

RECOMMENDATION 7.3

Internal audit functions should be disclosed.

Internal Audit

Scales internal audit function is overseen by the Audit and Risk Management Committee. The objective of the internal audit function is to enhance and protect the organisational value of Scales by providing risk-based and objective assurance, advice and insight.

Internal audit activities are governed by Scales' Internal Audit Charter, which outlines, amongst other things, the principles, purpose, authority and scope of the function.

An annual internal audit plan is prepared for approval by the Audit and Risk Management Committee. Where necessary, external expertise is obtained for specific audit activities.

The internal auditor is regularly invited to meet with the Committee including without Management present.

During 2019 the Company's internal audit programme was broadened to include specific engagements by a co-source service provider, KPMG. This change to the internal audit function gives a wider coverage to the programme, adds more depth to the work carried out and gives the Company access to highly experienced, and independent, professionals.

Principle 8 – Shareholder Relations

The Board should respect the rights of shareholders and foster constructive relationship with shareholders that encourage them to engage with the issuer.

RECOMMENDATION 8.1

An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.

Shareholder Relations

Scales' Board is committed to maintaining open and transparent communications with investors and other stakeholders. The annual report, NZX releases, governance policies and charters and a variety of corporate information is posted onto the Company's website. Recordings of results briefings are available at Investor Presentations in the Investors section of the website.

Each shareholder is entitled to receive a hard copy of each annual report.

The Company has a Shareholder Meetings page in the Investors section on its website. Documents relating to meetings are available.

Shareholder meetings will be held at a time and location to encourage participation in person by shareholders. Annual meetings historically have been held in Christchurch, reflecting the head office location for the Company, and the historical shareholder base. In 2019, the Annual meeting was held in Napier, which acknowledged the Company's breadth of operations in the Hawke's Bay. The Board has requested that future Annual meetings are periodically held outside of Christchurch to ensure the increasingly diverse investor base has an opportunity to participate in meetings.

RECOMMENDATION 8.2

An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.

Electronic Communications

Shareholders have the option of receiving their communications electronically. Contact details for Scales' head office are available on the website.

RECOMMENDATION 8.3

Shareholders should have the right to vote on major decisions which may change the nature of the company in which they are invested in.

Major Decisions

Directors' commitment to timely and balanced disclosure is set out in its Shareholder Communications and Market Disclosure Policy and includes advising shareholders on any major decisions. Where voting on a matter is required the Board encourages investors to attend the meeting or to send in a proxy vote. Shareholders may raise matters for discussion at the Annual Shareholders' Meeting either in person or by emailing the Company with a question to be asked. Scales conducts voting at its Annual Shareholders' Meetings by way of poll and on the basis of one share, one vote.

RECOMMENDATION 8.4

When seeking additional equity, the Company should offer shares to existing shareholders on a pro-rata basis before offering shares to other investors.

The Board will take this recommendation into account if considering any future capital raisings.

RECOMMENDATION 8.5

The board should ensure that the notice of meeting for the Annual Shareholders' Meeting and any special meeting is posted on the issuer's website as soon as possible and at least 20 working days prior to the meeting.

Notice of Meeting

Scales' Notice of Meeting will be available at least 20 working days prior to the meeting on the Shareholder Meetings page in the Investors section of the website.

DIRECTOR DISCLOSURES

Directors

The following persons were Directors of Scales and its subsidiaries during the year ended 31 December 2019:

Scales Corporation Limited

Andrew Borland	Executive Director
Tim Goodacre	Independent Chair
Nick Harris	Independent Director
Mark Hutton	Independent Director
Alan Isaac	Independent Director
Lai Po Sing, Tomakin (appointed 28 January 2019)	Director
Weiyong Wang (resigned 28 January 2019)	Director
Nadine Tunley (appointed 26 February 2019)	Independent Director

Fern Ridge Produce Limited

Russell Black

Andrew Borland

Hamish Davis

Andrew van Workum

Geo.H.Scales Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Longview Group Holdings Limited

Andrew Borland

Andrew van Workum

Meateor Foods Limited

Andrew Borland

Nick Harris

Meateor Foods Australia Pty Limited

Andrew Borland

Tim Goodacre

Meateor Group Limited

Andrew Borland

Nick Harris

Meateor US LLC

Andrew Borland

John Sainsbury

Mr Apple New Zealand Limited

Andrew Borland

Tim Goodacre

Mark Hutton

New Zealand Apple Limited

Andrew Borland

Tim Goodacre

Scales Logistics Australia Pty Limited

Andrew Borland

Tim Goodacre

Emergent Cold Limited
(formerly Polarcold Stores Limited)

Andrew Borland (resigned 17 May 2019)

Nick Harris (resigned 17 May 2019)

Mark Hutton (resigned 17 May 2019)

Scales Employees Limited

Andrew Borland

Mark Hutton

Scales Holdings Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Scales Logistics Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Selacs Insurance Limited

Andrew Borland

Alan Isaac

Steve Kennelly

Shelby Exports, Inc.

Brett Frankel

Bruce Curtis

Shelby JV LLC

Andrew Borland

John Sainsbury

Brett Frankel

Bruce Curtis

Whakatu Coldstores Limited

Andrew Borland (resigned 17 May 2019)

Stephen Foote (resigned 24 May 2019)

Interests Register

The following entries were made in the interests register of Scales and its subsidiaries during the period 1 January 2019 to 31 December 2019:

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 2019 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
Andrew Borland	53,137	Beneficial owner	Acquisition	$2.71 per share	30 April 2019
Andrew Borland	72,754	Beneficial owner	Disposal	$4.89 per share	20-23 May 2019
Andrew Borland	78,818	Beneficial owner	Acquisition	$4.06 per share	28 June 2019
Andrew Borland	250,000	Registered holder, together with Gina Dellabarca and Mark Bolton, as trustees of the Borland Dellabarca Family Trust, of which Andrew Borland is a discretionary beneficiary.	Disposal	$5.07 per share	6-13 November 2019

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 2019 to 31 December 2019 are as follows:

Scales Corporation Limited	
Andrew Borland	
New Zealand Apples & Pears Incorporated	Ceased as a Director
Mark Hutton	
New Zealand King Salmon Investments Limited	Ceased as a Director
Nick Harris	
Enterprise North Canterbury Trust	Ceased as Chair and as a Trustee
Alan Isaac	
AKA Investments Limited	Ceased as a Director
Brierley Cricket Foundation	Appointed as a Trustee
McGrath Nicol and Partners	Ceased as Chair
Lai Po Sing, Tomakin	
China Resources Enterprise, Limited	Noted as CFO & Company Secretary
New Zealand King Salmon Investments Limited	Appointed as a Director
Nadine Tunley	
Blinc Innovation Limited	Noted as a Director
Blinc Innovation Limited	Ceased as a Director
Energie Fruit Charitable Trust	Noted as a Trustee
Energie Fruit Company NZ Limited	Noted as a Director
NZ Foodbasket Limited	Appointed as a Director
Oha Owhaoko Honey GP Limited	Appointed as a Director
Primary Sector Council	Noted as a Member
Primary Industry Training Organisation	Noted as Chair - Director Selection Panel
Tunley Enterprises Limited	Noted as a Director

Relevant Interests

The table below records the Scales ordinary shares in which each Director had a relevant interest as at 31 December 2019.

Director	Number of Ordinary Shares – Beneficial	Number of Ordinary Shares – Non-Beneficial
Andrew Borland	365,614	500,000
Tim Goodacre	15,625	Nil
Nick Harris	100,000	Nil
Mark Hutton	Nil	748,277
Alan Isaac	25,000	3,000
Lai Po Sing, Tomakin	Nil	Nil
Nadine Tunley	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 2019 was $219,000. There were no fees paid to Deloitte Limited for non-assurance work during the year. In addition, audit fees of $98,649 were payable to Sheehan & Company during the year ended 31 December 2019, for their audit of Meateor US LLC and its subsidiaries.

Shareholder Information

Spread of Shares

Set out below are details of the spread of shareholders of Scales as at 31 January 2020:

	Number of Shareholders	Number of Shares Held	% of Shares Held
Under 2,000	1,160	1,156,936	0.82
2,000 to 4,999	1,370	4,198,916	2.97
5,000 to 9,999	860	5,638,537	3.98
10,000 to 49,999	798	14,247,597	10.06
50,000 to 99,999	79	5,183,427	3.66
100,000 and over	72	111,153,825	78.51

20 Largest Shareholders

Set out below are details of the 20 largest shareholders of Scales as at 31 January 2020:

Shareholder	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	36,944,331	26.09
China Resources Ng Fung Limited	21,500,000	15.19
FNZ Custodians Limited	8,080,979	5.71
Custodial Services Limited	6,729,140	4.75
Custodial Services Limited	6,090,520	4.30
Custodial Services Limited	3,541,525	2.50
John Grant Sinclair & Camille Elizabeth Sinclair	2,241,000	1.58
Custodial Services Limited	2,222,773	1.57
Custodial Services Limited	1,997,142	1.41
John Grant Sinclair	1,665,495	1.18
New Zealand Depository Nominee Limited	1,436,215	1.01
Scales Employees Limited	1,383,659	0.98
Custodial Services Limited	1,273,721	0.90
PT (Booster Investments) Nominees Limited	1,149,472	0.81
Investment Custodial Services Limited	1,105,392	0.78
FNZ Custodians Limited	949,070	0.67
Forsyth Barr Custodians Limited	795,482	0.56
Woolf Fisher Trust Incorporated	680,000	0.48
JB Were (NZ) Nominees Limited	660,488	0.47
Sirius Capital Limited	552,377	0.39
Total	**100,998,781**	**71.33**

Substantial Product Holders

Set out below are details of the substantial product holders of Scales as advised by notice to Scales at 31 December 2019.

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 2019.

Name	Number of Shares	Class of Shares
China Resources Ng Fung Limited	21,500,000	Ordinary
Harbour Asset Management Limited and Jarden Securities Limited (previously named First NZ Capital Securities Limited)	14,015,001	Ordinary

The total number of Scales Corporation Limited ordinary shares on issue as at 31 December 2019 was 141,579,238.

Other Information

NZX Waivers

Scales did not rely upon any waivers granted by NZX Limited during the year ended 31 December 2019.

Exercise of NZX Disciplinary Powers

NZX Limited did not exercise any of its powers under Listing Rule 9.9.3 in relation to Scales during the year ended 31 December 2019.

Donations

Donations of $12,884 were made by Scales during the year ended 31 December 2019.

Glossary

Average net cash/debt	Average net cash/debt is calculated as the average of the term cash/debt balance plus the net working capital facility balance, as at 30 June 2019 and 31 December 2019
Capital employed	Capital employed is calculated as non-current assets plus working capital (excluding cash, overdrafts and borrowings, NZ IFRS 16 right of use asset and lease liability, dividends declared, derivative assets/liabilities and employee loans)
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
Fern Ridge	Fern Ridge Produce Limited (72.88% held by Scales, consolidated with a non-controlling interest presented)
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 Corporation Limited, its subsidiaries and joint ventures
Ha	Hectare, a metric unit of measurement equal to 10,000 square meters
IPO	Initial Public Offering
Meateor International	Meateor Foods Limited and Meateor Foods Australia Pty Limited (100% held by Scales, consolidated)
Meateor NZ	Meateor Pet Foods Limited Partnership (50% held by Scales, equity accounted as a joint venture)
MT	Metric Tonnes
Net profit	Net profit after tax
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZQA	New Zealand Qualifications Authority
Profruit	Profruit (2006) Limited (50% held by Scales, equity accounted as a joint venture)
PVR	Plant Variety Rights
ROCE	Return on Capital Employed, calculated as EBIT divided by Capital Employed
Shelby	Shelby JV LLC group of companies (60% held by Scales, consolidated)
TCE	Tray Carton Equivalent, a measure of apple and pear weight, equal to 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
Underlying profit measures (EBIT, EBITDA, NPAT)	Non-GAAP profit measures which Directors and management use when discussing financial performance. See page 9 for definition and pages 38-39 for reconciliation to GAAP (NZ IFRS) profit measures.

Directory

Board of Directors

Tim Goodacre (Chair)
Andrew Borland (Managing Director)
Nick Harris
Mark Hutton
Alan Isaac
Lai Po Sing, Tomakin (Appointed on 28 January 2019)
Nadine Tunley (Appointed on 26 February 2019)
Weiyong Wang (Resigned on 28 January 2019)

Audit and Risk Management Committee

Alan Isaac (Chair)
Nick Harris
Mark Hutton

Nominations and Remuneration Committee

Mark Hutton (Chair)
Tim Goodacre

Finance and Treasury Committee

Mark Hutton (Chair)
Andrew Borland

Health & Safety and Sustainability Committee

Nick Harris (Chair)
Andrew Borland
Nadine Tunley

Registered Office

52 Cashel Street
Christchurch 8013
New Zealand

Postal Address

PO Box 1590
Christchurch 8140
New Zealand

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

Level 3
ANZ Centre
267 High Street
Christchurch 8011

Rabobank New Zealand Limited

Level 10
21 Queen Street
Auckland 1010

Westpac New Zealand Limited

Level 4
The Terrace
83 Cashel Street
Christchurch 8011

Solicitors

Anthony Harper

Level 9
Anthony Harper Tower
62 Worcester Boulevard
Christchurch 8013

Chapman Tripp

23 Albert Street
Auckland 1010

Corporate Advisor

Maher & Associates

17 Albert Street
Auckland 1010

Share Registry

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622

Scales Corporation Limited

52 Cashel Street, Christchurch 8013, New Zealand

www.scalescorporation.co.nz

Printed on 100% recycled paper