Scales
growing New Zealand

An Investment In New Zealand's Primary Industry

Prospectus

Initial public offering of ordinary shares in Scales Corporation Limited

20 June 2014

(As amended by an Instrument to Amend dated 27 June 2014)

DeutscheCRAIGS
Joint Lead Manager and Organising Participant

FIRST NZ CAPITAL
Joint Lead Manager and Organising Participant

IMPORTANT INFORMATION

Important Notice
This document relates to the Offer by the Offeror of ordinary shares in Scales Corporation Limited. A description of the Offer and the Shares is set out in *Section 8.1: Details of the Offer*.

This document is a prospectus for the purposes of the Securities Act and the Securities Regulations and is prepared as at, and dated, 20 June 2014 (as amended by an Instrument to Amend dated 27 June 2014).

This Prospectus is an important document and should be read carefully before deciding whether or not to invest in Scales.

No one is authorised by the Directors, the Issuers or the Promoters to give any information or make any representation in connection with this Offer which is not contained in this Prospectus, the Investment Statement or in other communications from the Directors, and the Issuers or the Promoters. Any information or representation not so contained may not be relied upon as having been authorised by an Issuer, the Directors or the Offeror.

If you have any questions about the Offer you should consult your financial or legal adviser or an NZX Firm.

You should seek your own taxation advice on the implications of an investment in the Shares.

No Guarantee
No person guarantees the Shares offered under this Prospectus. No person warrants or guarantees the performance of the Shares or any return on any investments made pursuant to this Prospectus.

Selling Restrictions
The Offer is being made to Pohutukawa Investors, New Zealand clients of NZX Firms who receive a firm allocation of Shares and to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions. No person may offer, sell (including resell) or deliver or invite any other person to so offer, sell (including resell) or deliver any Shares or distribute any documents (including this Prospectus) in relation to the Shares to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction. The Offer will only be made to investors in Australia to the extent that such offers of Shares for issue or sale do not need disclosure to investors under Part 6D.2 or Chapter 7 of the Corporations Act.

Unless otherwise agreed with the Issuers and the Promoters, any person or entity subscribing for Shares in the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him, her or it of an offer or invitation of the kind described in this Prospectus, and is not acting for the account or benefit of a person within such jurisdiction. In particular, any person who receives the Offer in Australia represents and warrants to the Issuers and the Joint Lead Managers that they are a person who falls within an exemption from disclosure to investors provided by the Corporations Act, including a “sophisticated investor” within the meaning of section 708(8) of the Corporations Act, a “professional investor” within the meaning of section 708(11) of the Corporations Act, or a “wholesale client” within the meaning of section 761G of the Corporations Act. Any offer of Shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act.

Australian investors should also be aware that an issue or sale of shares under this Prospectus is subject to re-sale restrictions in Australia for 12 months after the issue or sale. Australian investors should refer to *Section 8.1.7: Selling Restrictions* for further information.

None of the Issuers, the Promoters, the Joint Lead Managers, the Registrar or any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Registration
A copy of this Prospectus duly signed by or on behalf of the directors of the Issuers and every Promoter, and having endorsed thereon or attached thereto copies of the documents required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act.

The documents required by section 41 of the Securities Act to be attached to the copy of this Prospectus delivered to the Registrar of Financial Service Providers for registration are:

- the Auditor's report in respect of certain financial information included in this Prospectus, as set out in this Prospectus;
- the signed consent of the Auditor to the Auditor's Report appearing in this Prospectus;
- the signed consent of the Investigating Accountant to the investigating accountant's report appearing in this Prospectus; and
- copies of the material contracts referred to under the heading "Material Contracts" in *Section 8.3: Statutory Information*.

Consideration Period
Pursuant to section 43C of the Securities Act, the Financial Markets Authority will be notified once this Prospectus is registered with the Registrar of Financial Service Providers. The Financial Markets Authority will have the opportunity to consider whether the Prospectus: (a) complies with the Securities Act and the Securities Regulations; (b) contains any material misdescription or error or any material matter that is not clearly legible; or (c) is false or misleading as to a material particular or omits any material particular. Nothing in this section or in any other provision of the Securities Act limits the Financial Markets Authority's power to consider or reconsider these matters at any time. The nature and extent of the consideration (if any) that the Financial Markets Authority gives to this Prospectus is at the Financial Markets Authority's discretion.

Pursuant to section 43D of the Securities Act, no allotment of Shares may be made and no Applications or subscriptions for Shares may be accepted during the Financial Markets Authority's consideration period. The consideration period commences on the date this Prospectus is registered and ends at the close of five working days after the date of registration. The Financial Markets Authority may shorten the consideration period, or extend it by no more than five additional working days.

Forward Looking Statements
This Prospectus contains certain statements which relate to the future including, in particular, the information set out in *Section 7.3: Prospective Financial Information*. Forward looking statements should be read together with the other information in this Prospectus, including the risk factors in *Section 6: What are my Risks?* and the assumptions and sensitivity analysis set out in *Section 7.3: Prospective Financial Information*.

Such forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Group and which may cause actual results, performance or achievements of the Group to differ materially from those expressed or implied by such statements.

The Directors, the Issuers and the Promoters disclaim any responsibility to update any such risk factors or publicly announce the results of any revisions to any of the forward looking statements contained in this Prospectus to reflect developments or events, except to the extent required by the Securities Act, the Securities Regulations, the NZX Listing Rules or the Financial Reporting Act.

Given these uncertainties, you are cautioned not to place undue reliance on any forward looking statements contained in this Prospectus. Under no circumstances should you regard the inclusion of forward looking statements as a representation or warranty by the Issuers, the Promoters or their respective directors or officers or any other person referred to in this Prospectus with respect to the achievement of the results set out in any such statement, or that the underlying assumptions used will in fact be realised.

Questions about the Offer
If you have any queries about the risk or suitability of an investment in the Shares you should consult your financial adviser or an NZX Firm. If you wish to apply for Shares you must receive the Investment Statement and make your Application on the Application Form or accompanying the Investment Statement.

Definitions
Capitalised terms used in this Prospectus have the specific meaning given to them in the *Glossary*.

Unless otherwise indicated, any references to dates and times are to dates and times in New Zealand and any references to $ or NZD are to New Zealand dollars.

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SECTION 1: LETTER FROM THE CHAIRMAN

20 June 2014

Dear Investor

On behalf of the Scales Board of Directors, I am delighted to invite you to become a Shareholder in the Company. Scales' origins date back to 1897. Today Scales is a large, diverse and growing New Zealand agribusiness group.

Scales is exposed to the key primary industry sectors in New Zealand across its three operating divisions, Horticulture, Storage & Logistics and Food Ingredients. This is an exciting industry to be involved in, with the Ministry for Primary Industries targeting a doubling of primary sector exports by 2025. We believe our diversity, and associated exposure to a number of expanding export sectors, is one of our key strengths.

We are proud of Scales' strong track record of financial performance, and in FY2013 achieved a record revenue of $272.8 million and Net Profit of $20.4 million. While the FY2013 result was assisted by a particularly good apple harvest, the outlook for Scales is very positive.

Scales is committed to growing each of its three divisions. In the near term, we are pursuing various opportunities:

- ***Horticulture:*** increasing apple volumes targeted at premium Asian and Middle Eastern markets reflecting Mr Apple's redevelopment programme of almost 270 ha over the past six years into premium redder, sweeter varieties sought by those markets.

- ***Storage & Logistics:*** New Zealand cold and bulk liquid storage requirements, as well as sea and air freight logistics support needs, are expected to continue to grow with increasing New Zealand dairy, meat and horticulture export volumes.

- ***Food Ingredients:*** growing New Zealand primary industry volumes and associated by-products provide Meateor and Profruit the opportunity to add value and meet increasing demand from the global pet food and beverage industries.

Scales has a highly experienced senior management team with an average tenure of more than 20 years, which has been led by Managing Director Andy Borland since 2007. Scales' management has the sector knowledge, relationships and expertise to continue to develop the Company and deliver positive returns for its Shareholders.

Scales is currently 84% owned by Direct Capital, with the balance held by management team members and other minority Shareholders. The Offer will raise up to $30 million of new capital and will ensure Scales has a strong balance sheet to take advantage of future growth prospects. In addition to the new capital being raised under the Offer, Direct Capital will sell down a portion of its current shareholding but together with its co-investors will retain at least 20% ownership in Scales following the Offer and will hold the Shares up until at least 31 December 2015. Management and other minority Shareholders may also sell down a portion of their shareholding.

The Investment Statement and Prospectus contain important information about Scales and the Offer. We encourage you to read the offer documentation and carefully consider the opportunities and risks before making your investment decision.

On behalf of the whole team at Scales, we look forward to welcoming you as a Shareholder.

Yours sincerely

J I Mayson
Chairman

SECTION 2: OFFER AT A GLANCE

This is an initial public offering of ordinary shares in Scales.

Scales comprises three divisions: Horticulture, Storage & Logistics and Food Ingredients. These operations provide Scales with exposure to all key primary industry sectors in New Zealand. You can find more information about Scales in *Section 5: About Scales.*

The Offer comprises the Broker Firm Offer, the Pohutukawa Offer and the Institutional Offer. There is no general public offer. Therefore if you wish to subscribe for Shares you must do so through an NZX Firm with a firm allocation.

The Offer is being made by the Offeror, SCL Limited. The Offeror has been incorporated solely for the purposes of facilitating the Offer and its directors are also directors of Scales. Through the Offer, Direct Capital Investments Limited, which currently holds 84.2% of the Shares, will sell between 59% and 73% of its Shares. Direct Capital Investments Limited holds Shares as custodian for DCIV-PII Delta Partnership (a partnership between Direct Capital IV Limited Partnership and Pohutukawa Delta Limited), Direct Capital IV Investments Limited, Hendry Nominees Limited, Direct Capital IV Delta Limited Partnership, the Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) and Accident Compensation Corporation. Certain Management Shareholders collectively holding 4,905,000 Shares issued to them under the Existing Senior Executive LTI Scheme[1] will also sell in aggregate up to 30% of those Shares through the Offer (with no one Management Shareholder selling more than 50% of the Existing Senior Executive LTI Scheme Shares they hold) and minority Shareholders will have the opportunity to have some or all of their Shares bought back by the Company in order for those Shares to be sold to the Offeror and then made available under the Offer.

The purpose of the Offer and intended use of proceeds is:

- to raise $30 million[2] which will be applied to fund issue costs and provide new capital to Scales. Scales intends to use such capital to pay down its term debt, providing Scales with flexibility for the future expansion of its business;

- to fund the Offeror to acquire Shares currently held by the Selling Shareholders in order to make those Shares available under the Offer; and

- to list Scales on the NZX Main Board which will provide Scales with additional financial flexibility, a market for Shares and an opportunity for Scales to broaden its Share register.

Key Dates

Pohutukawa Offer opens (5.00pm)	27 June 2014
Pohutukawa Offer closes (3.00pm)	2 July 2014
Final Price announced	4 July 2014
Broker Firm Offer opens	5 July 2014
Broker Firm Offer closes (5.00pm)	22 July 2014
Allotment Date	24 July 2014
Expected commencement of trading on the NZX Main Board	25 July 2014
Expected dispatch of holding statements and any refund payments (if required)	No later than 25 July 2014

[1] Management Shareholders may hold additional Shares but those Shares will not be sold under the Offer and will not be subject to the escrow arrangements described under the heading "Escrow Arrangements" in *Section 8.1: Details of the Offer*.

[2] Scales intends to issue $30 million worth of Shares, less the Shares (of up to $3,180,000) to be issued to eligible Scales employees who choose to participate in the Employee Share Ownership Scheme which is not made under this Offer but which is described in *Section 5.5: Board, Senior Management and Corporate Governance*.

These dates are indicative only and may be amended. The Offer may also be withdrawn at any time before the allotment of Shares at the Issuers' discretion.

Key Offer Statistics

Indicative Price Range[3]	$1.60 to $1.85 per Share
New Shares being offered to raise $30 million (based on the Indicative Price Range)	16.2 million to 18.8 million
Expected number of existing Shares being offered[4]	59.2 million to 82.0 million
Indicative Offer Size (based on the mid point of the Indicative Price Range)	$132.1 million to $171.5 million
Total number of Shares on issue upon completion of the Offer	135.8 million to 138.3 million
Shareholding of Direct Capital Investments Limited and its co-investors upon completion of the Offer	20% to 30%
Indicative market capitalisation upon completion of the Offer	$221.3 million to $251.2 million
Average Prospective Net Debt[5]	$44.1 million
Indicative enterprise value (EV)	$265.5 million to $295.4 million

Key Investment Metrics

	FY2014F	FY2015F
EV/EBITDA multiple	6.8x – 7.6x	6.4x – 7.2x
Price/earnings ratio	11.9x – 13.6x	10.6x – 12.1x
Implied cash dividend yield[6]	5.2% – 5.9%	5.8% – 6.6%
Implied gross dividend yield[6]	7.2% – 8.2%	8.0% – 9.1%

These metrics are provided to help you assess the value of Scales. Indicative market capitalisation, indicative enterprise value (*EV*), prospective price/earnings ratio, prospective EV/EBITDA multiple and prospective implied dividend yields are shown based on the lower and upper values of the Indicative Price Range. The calculations are explained in the table set out at the end of the Glossary.

Prospective Dividend Schedule

There is no assurance that these dividends will be paid	FY2014F	FY2015F
Dividends declared ($ million)	13.0	14.5
Dividend per Share (cps)[7]	9.4 – 9.6	10.5 – 10.7
Dividends declared as a proportion of Net Profit	70%[8]	70%

[3] The Final Price will be announced prior to the Broker Firm Offer opening and may be above, within or below the Indicative Price Range.

[4] Indicative only. The actual number of existing Shares to be offered by the Offeror will only be known at the time of the bookbuild after binding sale commitments have been received by the Offeror in respect of the Shares being sold by the Selling Shareholders.

[5] Average Prospective Net Debt is calculated as the post Offer term debt balance of $30 million plus the average net working capital facility balance (calculated as the average of the net working capital facility balance as at 30 June 2014 and 31 December 2014).

[6] Based on the Indicative Price Range. If you acquire Shares in the Offer you will be entitled to prospective dividends on those Shares. There is no assurance that prospective dividends will be paid.

[7] Based on there being 135.8 million to 138.3 million Shares on issue upon completion of the Offer.

[8] Calculated as dividends declared as a proportion of Pro forma Net Profit.

Scales has presented certain financial information below on a “Pro forma” basis. Scales believes this unaudited Pro forma information more closely reflects the Group’s composition and reporting post-Offer and provides a better basis for investors to assess both historical and prospective financial information. Adjustments have been made to reflect the demerger of the Investments division of Scales, one-off Offer costs and certain reclassifications. For a full explanation of the adjustments Scales has made to its financial information see *Section 7.2: Overview of Scales’ Pro Forma (non-GAAP) Financial Information*. The “statutory” information below reflects the historical and prospective financial information of the Group excluding the Pro forma adjustments.

Selected Financial Information

Denotes Pro Forma Financial Information

$ million	FY2012	FY2013	FY2014F	FY2015F
EBITDA	27.4	42.8	38.8	41.2
Net Profit	6.8	19.6	18.5	20.8
Net Profit (statutory)	13.6	20.4	15.9	20.8

Wherever prospective financial information appears in this Prospectus (including in the selected Pro forma financial information and key investment metrics presented in this section) you should read that financial information together with the assumptions set out in *Section 7.3: Prospective Financial Information* and also the risk factors set out in *Section 6: What are my Risks?* There is no guarantee that the results set out in the prospective financial information will be achieved.

EBITDA is a non-GAAP financial measure used by Scales that means earnings before interest, tax, depreciation and amortisation. You can find an explanation of trends in financial information and of EBITDA, and why Scales uses this non-GAAP measure of financial performance, in *Section 7.2: Overview of Scales’ Pro Forma (non-GAAP) Financial Information.* A reconciliation of Net Profit to Pro forma EBITDA is also included in *Section 7.2: Overview of Scales’ Pro Forma (non-GAAP) Financial Information.*

SECTION 3: SCALES AT A GLANCE

We grow, process, chill and export to the world.

Scales has been providing essential services to the New Zealand primary industry for more than 100 years.

Scales has origins dating back to 1897. Today it is an established market leader across all of its businesses with solid customer relationships, efficient operating systems and an experienced management team.

Scales benefits from the diversity of its operations and the breadth of its involvement in the primary sector.

Horticulture

- > **Mr Apple** is New Zealand's largest, fully integrated grower, packer and marketer of apples[9]
- > **In FY2013,** Mr Apple produced 2.8m TCEs of apples for export from its 1,037 ha of apple orchards, and exported 4.2m TCEs including apples from external suppliers, representing 24% of New Zealand's total apple exports
- > **Mr Apple** now exports nearly half its production to fast growing Asian and Middle Eastern markets
- > **Mr Apple** operates modern and efficient post-harvest facilities and uses leading orchard technology
- > **Fern Ridge Produce** is a 50% owned apple and produce exporter
- > **Horticulture** is forecast to contribute 58% ($22.5 million) of FY2014F Pro forma EBITDA[10]

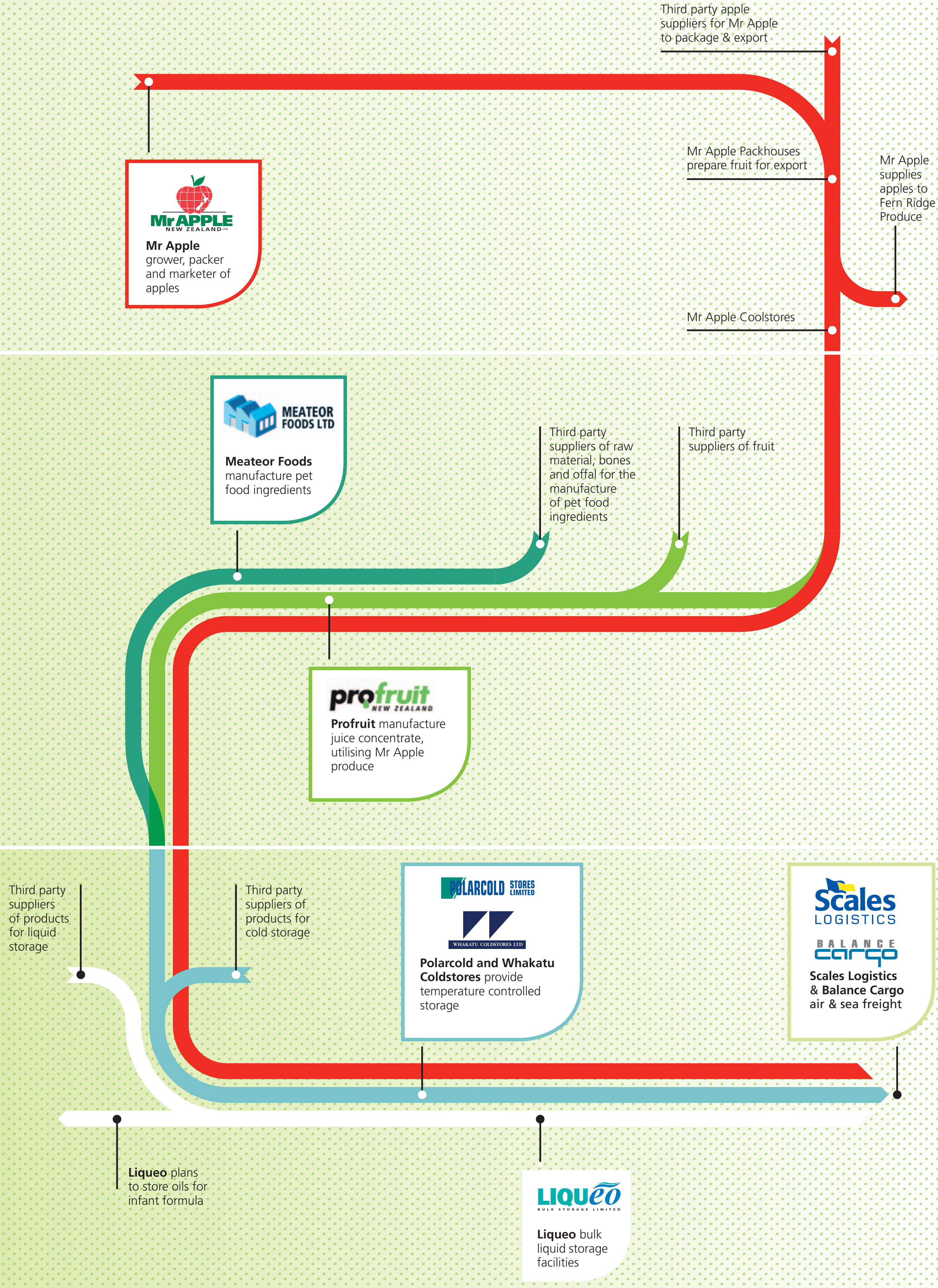
Food Ingredients

- > **Meateor** processes and markets pet food ingredients for the global pet food industry
- > **Profruit** is a 50% owned apple and kiwifruit juice concentrate manufacturer located in Hawke's Bay
- > **Meateor and Profruit** both complement Scales' other businesses
- > **Food Ingredients** is forecast to contribute 10% ($3.9 million) of FY2014F Pro forma EBITDA[10]

Storage & Logistics

- > **Whakatu Coldstores and Polarcold** are together the largest independent provider of temperature controlled storage in New Zealand
- > **Whakatu Coldstores operates** cold storage facilities in Hastings, Napier, Kerepehi and Wellington,[11] with 341,131m³ of temperature controlled storage
- > **Liqueo operates** bulk liquid storage terminals in Timaru and Hawke's Bay with a total capacity of 22,200 tonnes
- > **Polarcold operates** cold storage facilities in Dunedin, Timaru and Christchurch, with 265,499m³ of temperature controlled storage. It also expects to commence operations at a purpose built facility in Auckland in late 2015
- > **Scales Logistics** specialises in air and sea freight of primary produce
- > **Storage & Logistics** is forecast to contribute 36% ($14.0 million) of FY2014F Pro forma EBITDA[10]

9. *Based on FY2013 total own-grown and exported TCEs.*
10. *FY2014F Pro forma EBITDA includes a negative contribution from Head Office and Selacs Insurance of $1.6 million (which is why combined divisional FY2014F Pro forma EBITDA contribution is 104%).*
11. *Whakatu Coldstores' Wellington facility is operated under a management contract.*


Third party apple suppliers for Mr Apple to package & export
Mr APPLE NEW ZEALAND
Mr Apple grower, packer and marketer of apples
Mr Apple Packhouses prepare fruit for export
Mr Apple supplies apples to Fern Ridge Produce
Mr Apple Coolstores
MEATEOR FOODS LTD
Meateor Foods manufacture pet food ingredients
Third party suppliers of raw material, bones and offal for the manufacture of pet food ingredients
Third party suppliers of fruit
profruit NEW ZEALAND
Profruit manufacture juice concentrate, utilising Mr Apple produce
Third party suppliers of products for liquid storage
Third party suppliers of products for cold storage
POLARCOLD STORES LIMITED
WHAKATU COLDSTORES LTD
Polarcold and Whakatu Coldstores provide temperature controlled storage
Scales LOGISTICS
BALANCE cargo
Scales Logistics & Balance Cargo air & sea freight
Liqueo plans to store oils for infant formula
LIQUEO BULK STORAGE LIMITED
Liqueo bulk liquid storage facilities

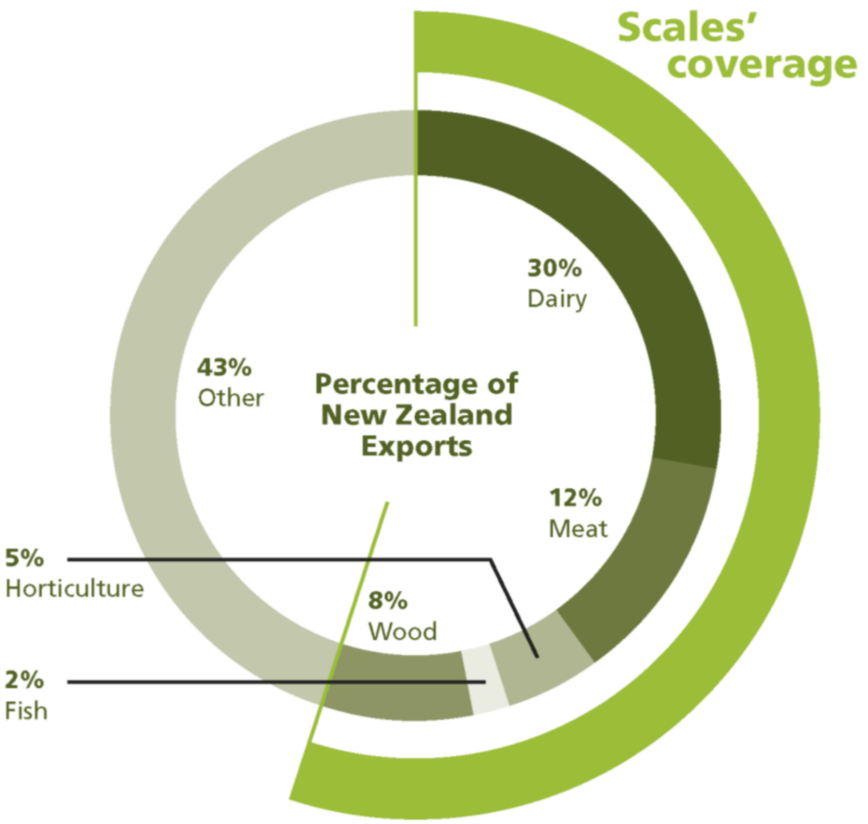
SECTION 4: INVESTMENT HIGHLIGHTS

An Investment in New Zealand

During 2013, New Zealand exported over $48 billion in goods – 56% of it in food.

Scales grows and produces food for export and provides essential storage and logistics services for a range of primary exporters.

Scales' Exposure to Primary Industry Sectors



Note: Scales' exposure to primary industry sectors is not directly proportionate to the percentage of New Zealand exports presented above.

Source: Statistics New Zealand

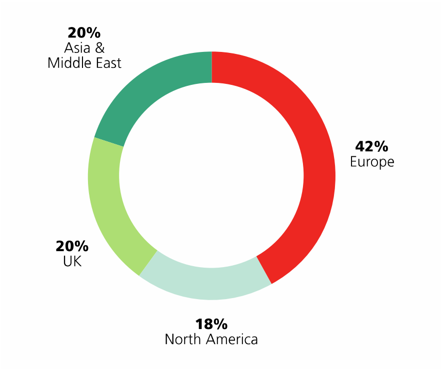
Scales is well positioned to benefit from growth in New Zealand food exports, expected to increase at 6% annually through to 2017. This forecast outlook is driven by:

- New Zealand's highly efficient production base;
- continuing productivity improvements and increasing land under irrigation; and
- increasing population and urbanisation in key Asian markets, which in turn is growing rates of consumption of New Zealand primary products.

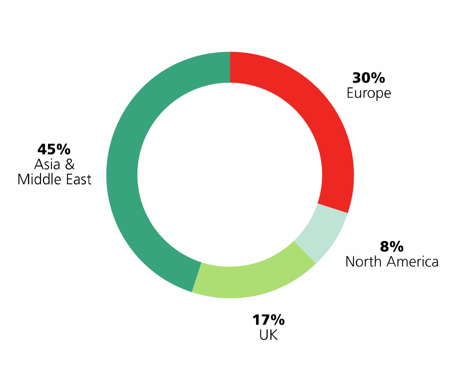
New Zealand's largest integrated apple grower, packer and marketer[12]

Mr Apple is refocusing its exports to higher growth, premium Asian and Middle Eastern markets

Exports by Market (2007)

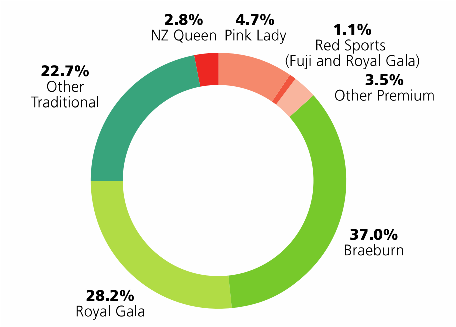


Exports by Market (2013)

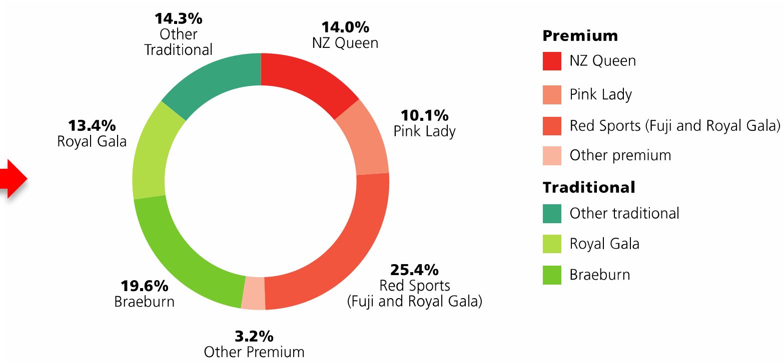


In order to meet demand from these markets, Mr Apple is undertaking substantial expansion and re-development of its orchard variety mix

Mr Apple Production (2009)



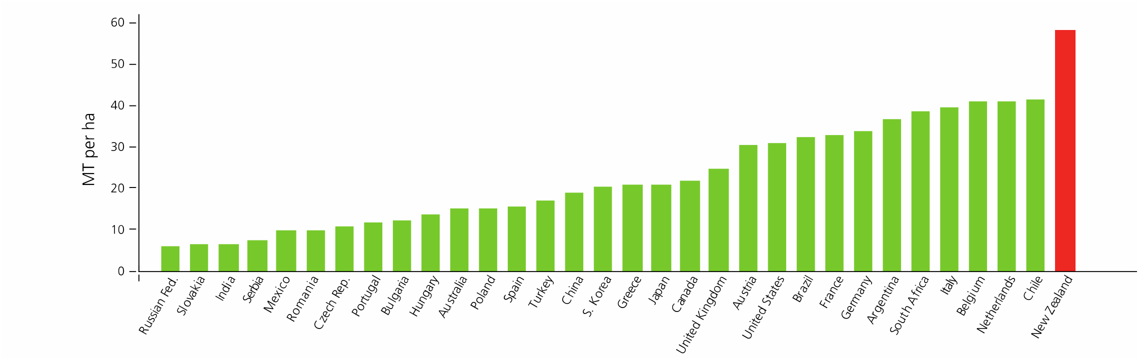
Mr Apple Target Production (2018)



Mr Apple has 1,037 ha of planted apple orchard (of which it owns 68%), making it the largest apple orchardist in New Zealand. In 2013, Mr Apple exported 24% of New Zealand's total apple production.

New Zealand average apple yields are significantly above global competitors and Mr Apple consistently exceeds the New Zealand average

Average Yields per ha (2011–2013)



Source: World Apple Review 2014

[12] Based on FY2013 total own-grown and exported TCEs.

New Zealand's largest independent cold storage network[13]

Scales' Storage & Logistics division:

- Provides essential supply chain services to major perishable food export industries, including cold storage, bulk liquid storage and international logistics services..

- Operates large infrastructure assets from strategic locations in most of New Zealand's primary agricultural regions.

- Services are highly integrated within key customers' operations:

    - Close proximity to customers' production assets;

    - Close proximity to key transport infrastructure (road, rail and port);

    - Integrated and customised reporting and software solutions; and

    - Excellent and long-standing customer relationships.

- Offers a cost effective alternative to customers building and operating their own storage capacity.

- Performance strongly correlated to continued growth in New Zealand's primary sector production, driven by increasing land under irrigation and general productivity improvements.

[13] Based on installed storage capacity as at 31 December 2013.

Clear Strategy for Growth

Horticulture

- Increasing apple exports to Asia and the Middle East
- Significant brand investment and focus to further raise Mr Apple's profile in offshore markets, specifically Asia and the Middle East
- Continued re-development of existing planted orchards toward premium varieties
- Mr Apple continues to examine opportunities to acquire or lease further apple orchards

Storage & Logistics

- Growth in food exports of more than 6% annually is expected through to 2017. To meet this Scales plans to:
  - Open a coldstore in Auckland in late 2015
  - Expand its existing coldstore and liquid storage network through organic growth and acquisitions
  - Continued roll out of a highly successful coldstore software system which will improve customer integration
- Targeting new coldstore customers, particularly FMCG customers
- Considering complementary logistics business acquisition opportunities

Food Ingredients

- Expansion of Meateor's raw material supply with operations commencing in Australia
- Expanding Meateor's product range to encompass alternative proteins
- Expanding Profruit's product range
- Considering complementary food ingredients acquisition opportunities

SECTION 5: ABOUT SCALES

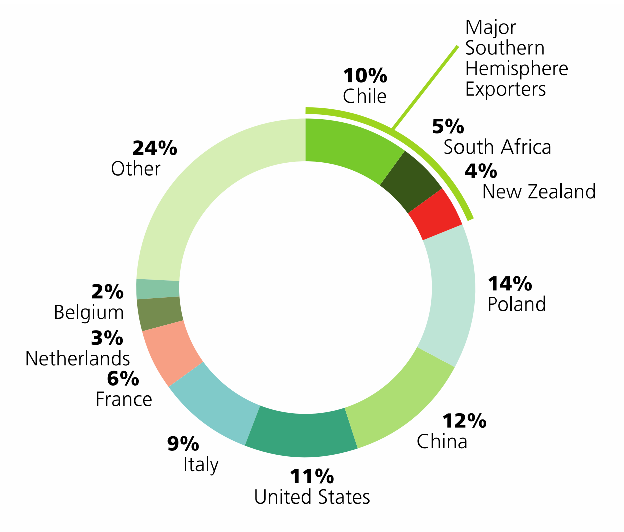
5.1 HORTICULTURE

5.1.1 Apple Industry Overview

Mr Apple is a New Zealand based global apple exporter. Accordingly, set out below is a brief description of the global and New Zealand apple industries.

The Global Apple Industry
The majority of global apple production is for domestic consumption, with only approximately 11% of total global apple production exported. Conversely, New Zealand exports the large majority of its apple production. New Zealand was the eighth largest exporter of apples in 2013, accounting for approximately 4% of total global apple export volumes. The global market is largely viewed as two separate markets, being the Northern and Southern Hemispheres. Southern Hemisphere exporters don't generally directly compete with Northern Hemisphere suppliers, due to peak supply periods differing. New Zealand competes most directly with Chile and South Africa.

Global Apple Export Volumes (2013)



Source: World Apple Review 2014

In recent times, there has been a global shift in apple exports toward markets that are geographically closer to exporters. Historically, both New Zealand and South Africa had a dependence on markets in Western Europe and North America. New Zealand is now more focused on nearby Asian and Middle Eastern markets, while South Africa has been increasing exports to other African markets and Chile has increased exports to other South American markets.

Similarly in the Northern Hemisphere, China's exports are primarily to other Asian countries, while the major European producers sold approximately 90% of their apple exports to other European countries in 2013.

While apple consumption has been flat or declining in traditional markets, rapid increases in per capita income in many Asian countries has significantly increased demand for fresh apples. Strong economic growth is forecast to continue for emerging economies and in Asia in particular. As the modern retailing system continues to develop in emerging economies, demand for twelve month supply of product is also expected to increase.

Aside from China, where most apples produced are a single variety (Fuji), New Zealand, which exports a range of varieties, is the closest major Southern Hemisphere exporter to the fast growing Asian markets, and is well placed to meet increasing demand in the region.

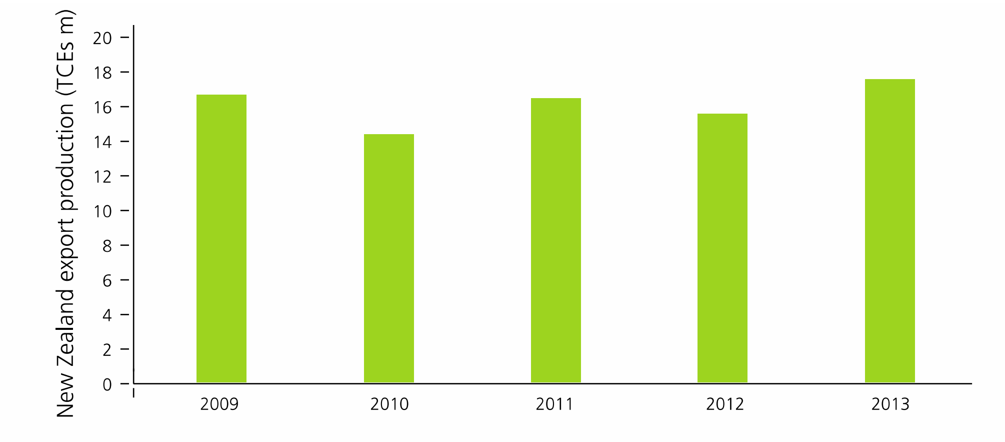
According to the World Apple Review 2014, New Zealand had higher apple yields per ha than any other country and the highest proportion planted in premium varieties.

The New Zealand Apple Industry

The New Zealand apple industry has undergone a period of consolidation resulting in a smaller number of larger and more vertically integrated participants. With approximately 300 growers still remaining, this consolidation process is expected to continue. Mr Apple considers continued consolidation beneficial to the domestic industry.

Hawke's Bay is the largest pipfruit producing region in New Zealand, accounting for approximately 60% of the national planted area and exports, with favourable growing conditions and efficient access to shipping services. The Nelson region accounts for approximately 30% of the national planted area and exports.

New Zealand Exports (2009–2013)



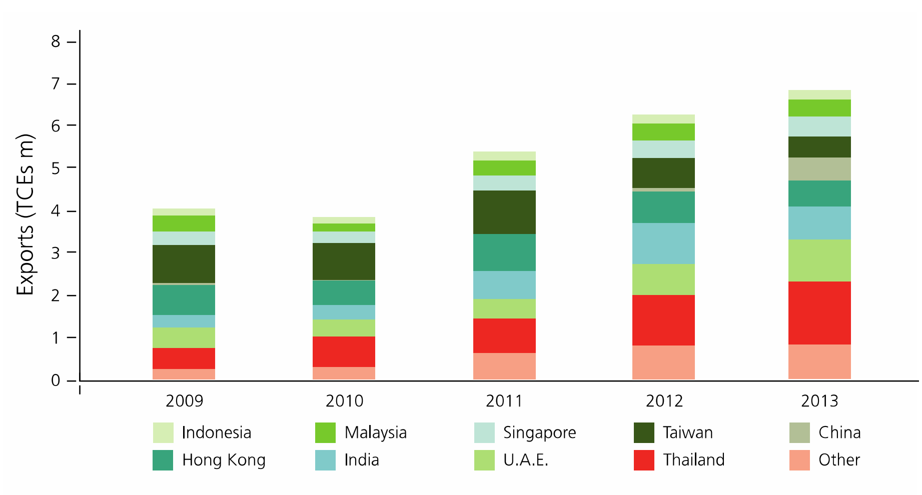
Source: Pipfruit Industry Statistical Annual 2013

Apple production in 2013 was up on 2012 due to generally good growing conditions. Dry, warm weather with high sunshine hours led to good fruit quality. 2014 production is also forecast to be strong but down on 2013.

The New Zealand apple market is adapting to increasing demand from Asian and Middle Eastern markets. The proportion of New Zealand apples exported to Asian and Middle Eastern markets has been steadily increasing, up from 24% in 2009 to 39% in 2013.

New Zealand growers export apples to a number of Asian and Middle Eastern countries, providing diversification while enjoying the premium prices achievable in these markets.

New Zealand Exports to Asia and Middle East

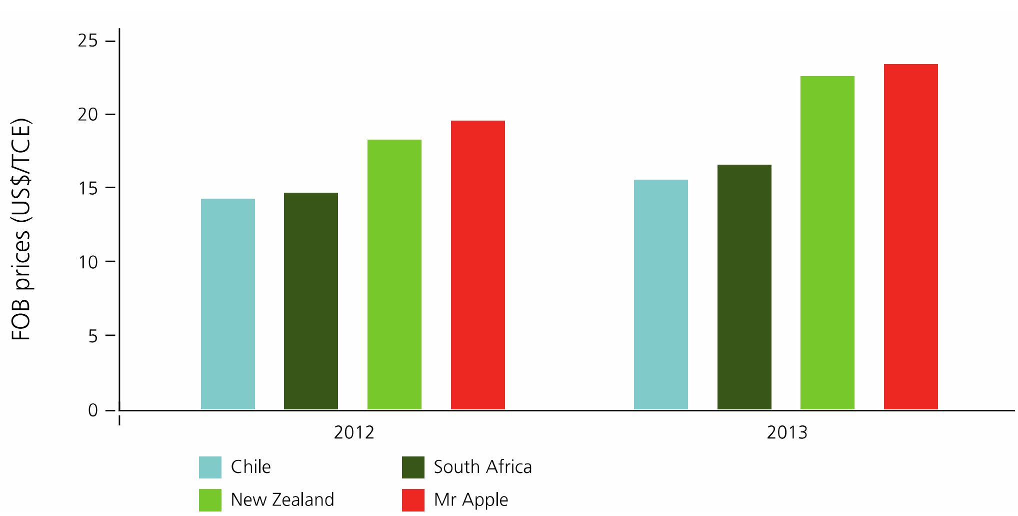


Source: Pipfruit Industry Statistical Annual 2013

Apple Pricing

New Zealand apples have historically achieved premium prices, highlighting the quality of New Zealand's fruit and its reputation with local customers.

Estimated Seasonal Apple Export Prices



Sources: Pipfruit NZ, South African Revenue Service, Chile Customs

Notes: New Zealand and Mr Apple prices are converted to USD at the average foreign exchange rate between 1 March and 30 September in each year.

Annual periods between sources differ as below. Note that the large majority of fruit grown in the Southern Hemisphere season is sold prior to 30 September.

Chile and South Africa prices are for the year ending 30 September. Mr Apple prices are for the year ending 31 December. The 2012 New Zealand price is for the year ending 31 December. The 2013 New Zealand price is for the nine months ending 30 September.

Exchange rate movements are a factor for all apple exporters, and have recently caused headwinds for New Zealand and Chile in particular, whose currencies have remained strong during the global recession.

Despite this, New Zealand apple prices have trended up since 2009, and are forecast by MPI to remain at or above current levels. We consider that the growing proportion of fruit going to Asian and Middle Eastern markets, and the shortening of supply to traditional markets, is driving increased returns.

5.1.2 Mr Apple

Mr Apple is New Zealand's largest integrated grower, packer and marketer of apples.[14] Mr Apple owns assets across all aspects of the supply chain.

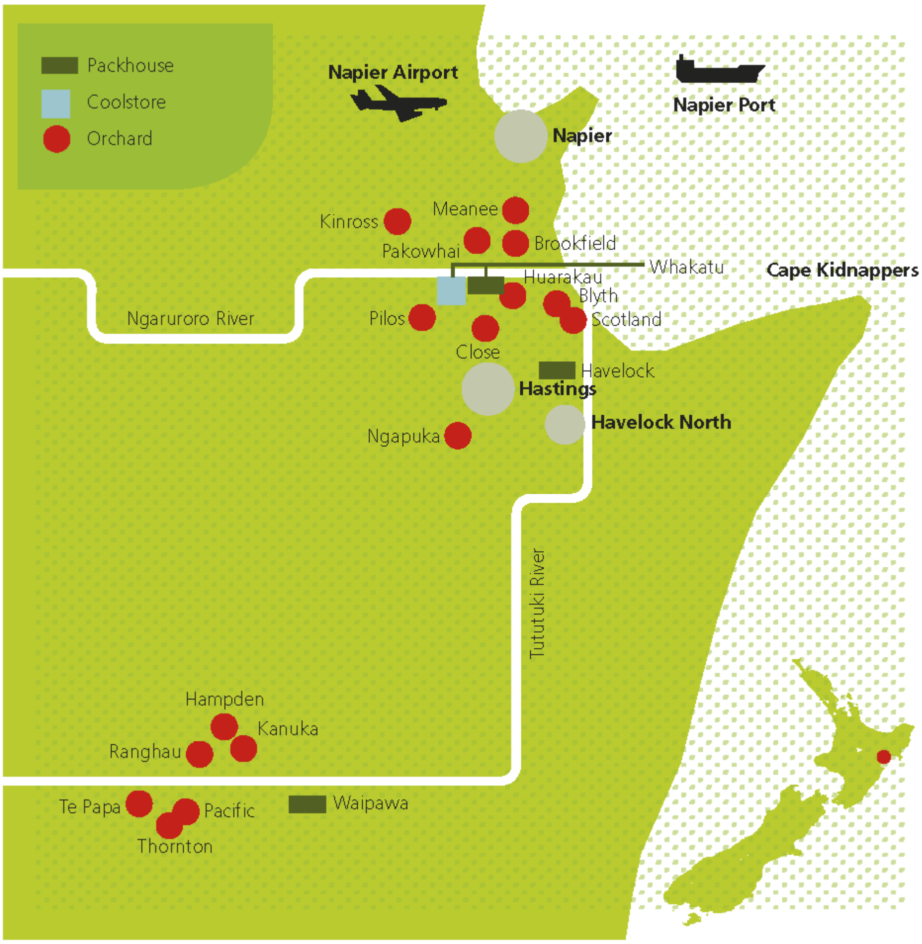
Mr Apple's Apple Cycle

[14] Based on FY2013 total own-grown and exported TCEs.

All of Mr Apple's growing and post-harvest activities are located in Hawke's Bay. Operations include 1,037 ha of planted orchard, 3 packhouses (each of which has a small feeder coolstore attached) and 5 separate coolstore facilities.

In addition, Mr Apple packs, stores and markets apples on behalf of a number of external growers in Hawke's Bay and markets on behalf of external growers in Nelson.

Mr Apple Locations



Orchards

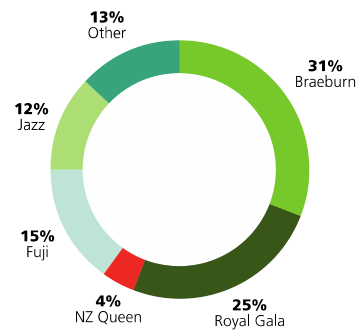
Mr Apple's apple orchard area of 1,037 ha is made up of 707 ha that are owned and 330 ha that are leased. The orchards are run as 13 separate management units.

Orchards are geographically dispersed throughout Hawke's Bay, mitigating against hail and other adverse weather events. Mr Apple has installed 100 wind machines for frost protection across its orchards.

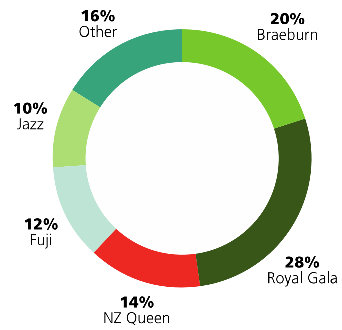
Mr Apple produced approximately 16% of New Zealand's total apple exports in 2013. When combined with Mr Apple's supply from external growers, Mr Apple marketed approximately 24% of total New Zealand apple exports in 2013.

Mr Apple has recently redeveloped a substantial portion of its orchards to the redder and sweeter varieties highly sought after in the Asian and Middle Eastern markets. In aggregate, approximately 270 ha have been replanted over the last 6 years, with 171 ha redeveloped since 2011. Replanting has been to NZ Queen, Pink Lady or redder varieties of, principally, Fuji and Royal Gala.

Planted Orchard (2009)

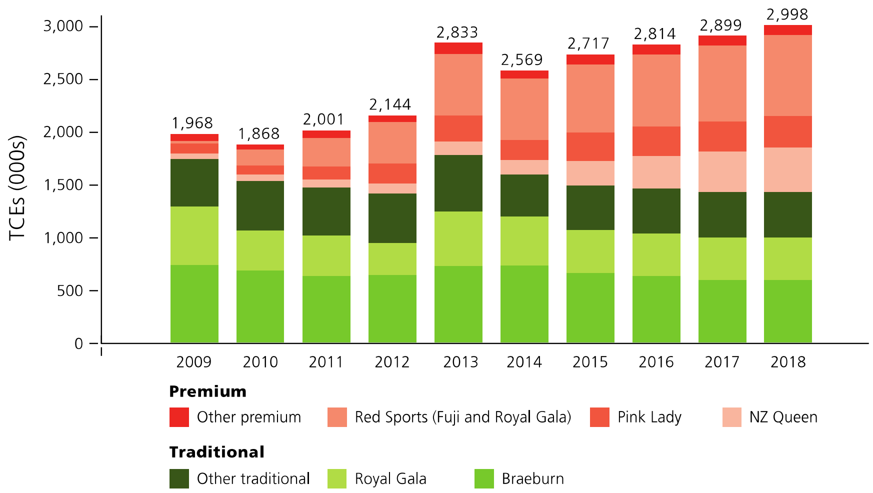


Planted Orchard (2013)



We expect maturing of these replanted and regrafted trees to continue until at least 2018. The chart below shows historical and target production by key variety.

Historical and Target Mr Apple Production



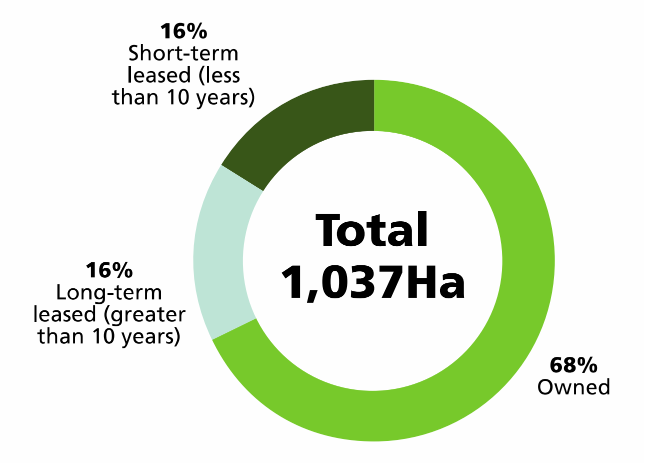
Orchard Ownership
Historically, Mr Apple has secured its apple supply through ownership of orchards, complemented by leases for relatively small areas of adjoining or nearby land.

More recently, this model has been adjusted to incorporate some long-term leases with multiple rights of renewal which enable investment in redevelopment. Leases permit increased expansion of the orchard base while preserving capital for investment elsewhere in the business.

Two orchards, with approximately 155 ha of planted orchard, were leased in September 2012. Both leases provide for terms of 5 years, but carry multiple rights of renewal, securing the land for Mr Apple for 15 years in one case and 25 years in the other.

Overall, leased orchards have a weighted average lease term of more than 11 years. We consider that the current mix of long-term leased and owned land, complemented by short-term leases, provides the right balance of supply control.

Interest in Orchards



Why is Controlling Supply Critical?

1. ***To meet customer expectations for quality, consistency and timing:*** Mr Apple has the ability to micro-manage its orchard down to each individual bay (of which there are approximately 1,000). Our focused management permits customised solutions to meet the varying requirements of a wide-range of discerning customers.

2. ***To control apple volumes, which underpins profitability in post-harvest operations:*** a consistent volume is critical to maximising efficient utilisation of post-harvest facilities, including coolstores and packhouses.

3. ***To ensure we continue to supply varieties that meet emerging market tastes and requirements:*** Mr Apple is able to quickly build the supply of, and market for, premium varieties. Small, non-integrated growers may not have the resources to redevelop their orchards and may miss these opportunities.

Orchard Management and Technology
A core focus of the business has been on improving fruit quality and yield per ha. For example, Mr Apple has invested in the use of Extenday® reflective groundcover fabric to add value by improving apple colour and quality. Mr Apple runs a team of highly experienced, passionate, committed and long-serving orchard managers who have been with the group for almost 20 years on average.

All of Mr Apple's orchards have water consents in place that provide for adequate irrigation based on crop water requirements, soil type, climate data and allowing for a 9 out of 10 year reliability. Consents are generally issued for 20 years and approximately 80% of Mr Apple's consents by land area still have 10 or more years to run before requiring renewal. Approximately 14% of Mr Apple's consents by land area will require renewal in the next 5 years. Mr Apple seeks to maintain a strong working relationship with the relevant regulatory authorities and has successfully renewed all consents as required to date.

Mr Apple has continually refined its practices to drive higher yields whilst minimising costs. Mr Apple has consistently outperformed national and global average yields for a number of years.

Average Export Yield per ha

Mr Apple's Leading Orchard Technology

Mr Apple has designed its own proprietary software system that integrates all aspects of the apple cycle. The software provides complete traceability of fruit from a single bay within a block of an orchard to the end-customer and is a full inventory management system. This information enables Mr Apple to:

- Measure individual orchard performance and identify underperforming orchards for assistance in identifying and isolating causes of reject fruit to prevent recurrence.
- Accurately measure the effectiveness of new techniques and management processes. All orchard managers have mobile devices to view key orchard bay statistics and targets.
- Manage inventory based on key attributes such as variety, size, fruit quality to ensure Mr Apple meets all customer, MPI and market access requirements.
- Maintain an electronic and integrated orchard spray programme and on-site laboratory results to ensure we meet all market access and customer fruit quality requirements.
- Electronically order, scan and track usage of fruit packaging inventory.

The use of this technology allows Mr Apple to provide a superior service to customers, which ultimately drives price premiums.

Harvest

Mr Apple harvests fruit only when it meets stringent maturity standards, including brix (target sugar levels), firmness, starch, and colour. Mr Apple has two on-site laboratories to assess fruit quality and maturity, which ensures apples last longer and store better, with limited loss in quality. Targeting particular maturity to individual customers is important to meet customer requirements and eliminate quality claims.

Recognised Seasonal Employer Scheme

Mr Apple has a very large seasonal component to labour costs, which peaks at around 1,700 staff during late summer/autumn for an average of two months.

Mr Apple played a significant role in helping establish the RSE Scheme in 2007 and was the first employer to be accredited to bring workers to New Zealand from the Pacific Islands. Annually Mr Apple brings in over 800 RSE Scheme workers from the Pacific Islands, arranging all travel and administration requirements, onsite accommodation and local transportation.

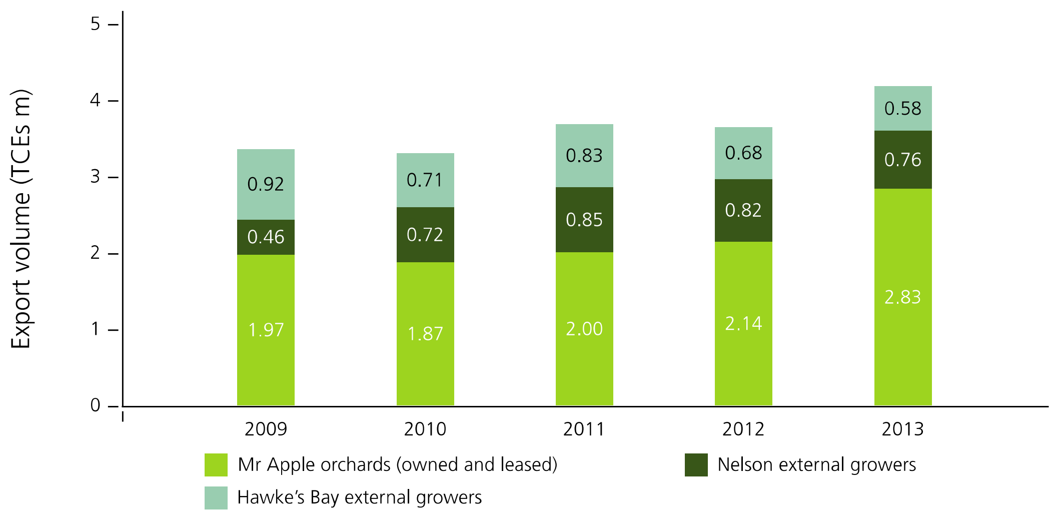
Mr Apple has been successful in retaining RSE Scheme workers over the years, with a return rate of 75% for the 2014 season, significantly enhancing labour efficiency.

Over the last few years the number of permanent positions within Mr Apple has also increased significantly from 162 in 2008 to 272 in 2014 due to the growth in the business.

External Growers

In addition to fruit grown from its owned or leased orchards, Mr Apple sources apples from a number of external growers. In FY2013 32% of Mr Apple exports were supplied by external growers. Mr Apple works with external growers to help them plan and develop their orchard, as well as to improve their yields and meet end-customer requirements. Mr Apple provides advance payments to these growers, which is critical funding for their working capital requirements. Finally, Mr Apple assists external growers through its purchasing power and group discounts, helping reduce external grower orchard costs. Many of Mr Apple's external grower relationships are long-standing, with some supplying us for over 20 years.

Export TCEs by Source of Supply



Post-harvest

Post-harvest, apples are chilled, packaged, coolstored, then exported. Lower grade apples are sent to be processed or to the local market. Efficiency in post-harvest operations is key to Mr Apple's profitability. Operations have been streamlined to ensure post-harvest operations run at full or near full capacity.

Mr Apple operates three modern and efficient packhouses, of all which are located in Hawke's Bay, including New Zealand's largest packhouse located in Whakatu.

Mr Apple operates five coolstore facilities in Hawke's Bay, one of which is owned with the remaining four leased. Mr Apple also has a service contract with ENZA to provide coolstore services. In addition Mr Apple has a small feeder coolstore attached to each of its three packhouses.

Overall, Mr Apple has the peak capability of coolstoring over 1 million packed TCEs that are awaiting export, and approximately 85,000 freshly picked apple bins, giving Mr Apple one of the largest apple coolstore capacities in New Zealand.

The coolstores have been customised to meet Mr Apple's requirements and ensure product quality is maintained throughout the process. For example, our coolstores have significant SmartFresh™ capacity which controls ripening while maintaining quality.

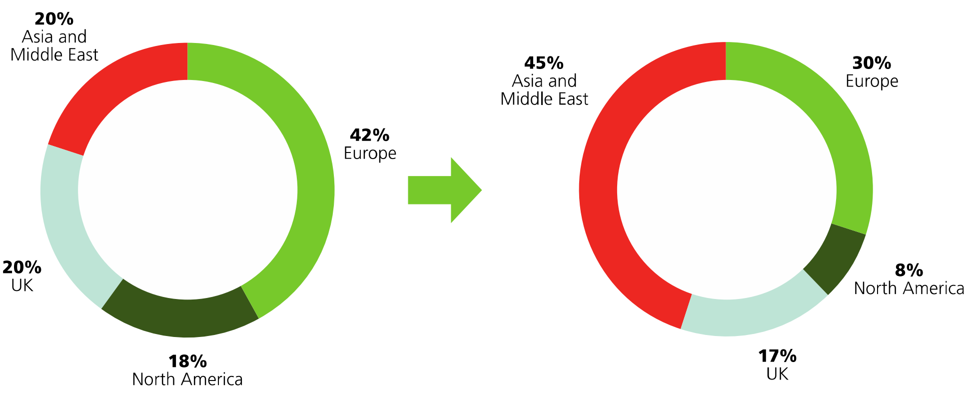
Mr Apple has agreed purchase options over two sites adjacent to its current head office and packhouse facility in Whakatu should Mr Apple decide to expand its post-harvest operations at this location. The sites, which are to be created on subdivision, can be acquired (separately or together) at Mr Apple's option for their estimated market values of $513,500 and $526,000 (plus GST) respectively at any time up until 31 December 2015 (subject to the subdivision being completed), from George H Investments Limited (previously the Investments division of Scales until its demerger in April 2014).

Exports and Pricing

In 2013 Mr Apple exported 4.2 million TCEs of apples, representing 24% of New Zealand's apple exports. The majority of Mr Apple's export requirements are handled by Scales Logistics.

Mr Apple exports predominately to Asia, the Middle East, the United Kingdom, Europe and North America. The last five years has seen exports to Asian and Middle Eastern markets increase considerably. These markets are now our largest export destination by volume.

Mr Apple Exports by Market (2007) **Mr Apple Exports by Market (2013)**



Asian and Middle Eastern markets pay a premium for high coloured (redder) New Zealand apples. High colour sweet varieties are commanding premiums of up to 50% above traditional New Zealand varieties.

The growing proportion of fruit going to Asian and Middle Eastern markets, and the shortening of supply to traditional markets, has enabled Mr Apple to renegotiate more favourable terms with the traditional consignment markets (the United Kingdom, Europe and North America) such as minimum guaranteed prices. These terms lock in a fair price, with an ability to participate in any upside if market conditions improve.

Customers
Mr Apple has long-standing relationships with high quality global customers accessing international supermarket chains. Mr Apple works closely with its customers to meet specific customer specifications and to remove costs from the supply chain. Mr Apple has invested in specific packing technology for customers, such as packing into customer branded bags eliminating double handling costs. This ultimately creates value for both the customer and Mr Apple. During the 2013 season, Mr Apple managed orders for 137 customers across 39 countries.

Marketing and Brand
The Mr Apple brand is recognised and respected globally for the high and consistent quality of its apples and the reliability of supply.

Mr Apple has recently embarked on a significant brand investment in partnership with two other Hawke's Bay growers to develop the 'Diva' brand of Fuji apples which will further raise the profile of premium varieties in offshore markets, specifically in the Asian and Middle Eastern markets.

Mr Apple takes a commission on the price it achieves for apples sold on behalf of external growers (net of freight). Freight, storage and other costs are recovered across external growers on a pro-rata basis.

Fern Ridge Produce
Mr Apple acquired a 50% ownership interest in Fern Ridge Produce in January 2013. Fern Ridge Produce specialises in the international marketing and export of apples and other produce such as kiwifruit and citrus fruit. Fern Ridge Produce exported 800,000 TCEs in the 2013 season.

With a very experienced team who started exporting produce in 1997, Fern Ridge Produce secures apples from external growers who are seeking a firm price 'on the day' at the orchard gate.

Top 10 Markets by Volume

The map below illustrates our top 10 markets by percentage of volume in 2013 and identifies the majority of exports to that market by variety type.

Canada
2.7%
Traditional

Longstanding relationships with major retail customers.

Great Britain
16%
Traditional

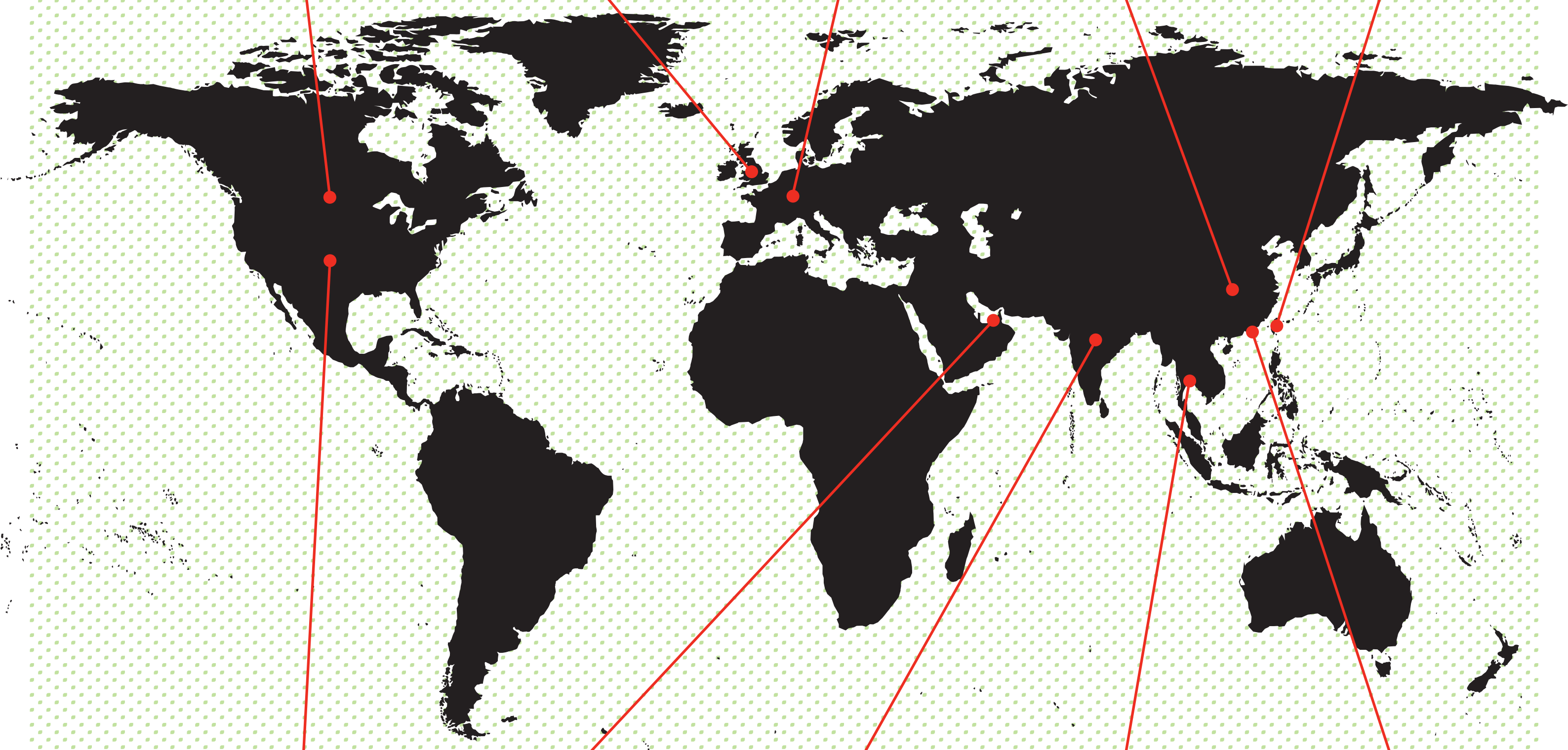
Continental Europe
27.2%
Traditional

Premium prices paid for NZ Queens.

China
2.9%
Premium

With high per-capita consumption of apples and a recently agreed Closer Economic Partnership Agreement improving the relative competitiveness of New Zealand to other Southern Hemisphere countries, Mr Apple expects to achieve strong growth in sales.

Taiwan
3.5%
Traditional & Premium



USA
5.3%
Traditional

United Arab Emirates
6.7%
Traditional & Premium

India
4.7%
Traditional & Premium

Thailand
3.5%
Traditional & Premium

New Zealand fruit has preferred access to Thailand due to our Free Trade Agreement, with almost no fruit purchased from other Southern Hemisphere producers.

Hong Kong
4.7%
Premium

5.2 STORAGE & LOGISTICS

Polarcold and Whakatu Coldstores, which are part of our Storage & Logistics division, are New Zealand based cold storage providers. Accordingly, set out below is a brief description of the New Zealand temperature controlled storage industry within which we operate.

5.2.1 New Zealand Temperature Controlled Storage Industry Overview

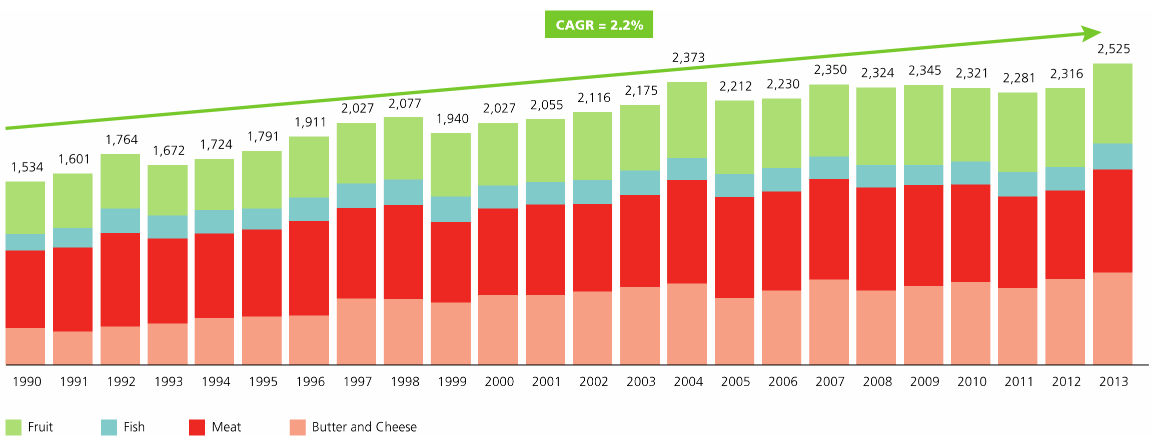
Temperature controlled storage is an essential component of the supply chain for perishable food producers exporting their products.

Temperature controlled storage terminology		
Coolstores / Chillers	Operate from -1°C to 15°C	• Used to hold product at this temperature (for example cheese, meat, flower bulbs, and fruit).
Coldstores / Freezers	Operate from -25°C to -12.2°C	• Used to keep product frozen (for example meat, fish, and frozen consumer foods).
Blast Freezers	Operate down to -29°C	• Blast freezing is an essential service for meat customers to ensure compliance with MPI requirements. • High-volume / high-velocity airflow generated from specially designed blast freezing rooms is used to rapidly freeze product as required.

Demand for Temperature Controlled Storage
Domestic temperature controlled storage demand is driven by New Zealand's perishable food production and requirements for continuous cold chain handling.

Over the past 23 years total key perishable food exports (in tonnes) has steadily increased. In 2013, total key perishable food export volume of 2.5 million tonnes was almost 65% higher than in 1990.

New Zealand Perishable Food Exports (Tonnes 000s)



Source: Statistics New Zealand.

Key Factors Driving Perishable Food Production
New Zealand's perishable food production is driven by the following key factors:

- ***Demand for New Zealand food:*** demand for New Zealand food is increasing and is expected to continue to increase. This is being driven principally by increasing population, urbanisation and wealth in key Asian markets.

- ***Irrigation projects:*** New Zealand's total land under irrigation increased by 17% between 2007 and 2012 to 721,700 ha. This trend looks likely to continue for the foreseeable future with proposed schemes to collectively increase total irrigable land by a further 655,000 ha. On average, irrigated farmland generates three times the production of an equivalent area farmed under dry land systems.

> **Example Irrigation Project: The Central Plains Water Enhancement Scheme**
>
> The Central Plains Water Enhancement Scheme will irrigate 60,000 ha in the Canterbury Plains, linking the Waimakariri and Rakaia Rivers via a 56 km canal. Construction on Stage 1 (encompassing 20,000 ha through a 17 km canal running from the Rakaia River) commenced in March 2014, with water expected to be made available in time for the 2015/2016 irrigation season.

- ***Improvements in agricultural productivity:*** Over time, technological developments and improving farming practices have enabled significant growth in yields. For example, average kilograms of milk solids per farmed ha in New Zealand have increased approximately 19% over the last decade.

> **Why Store with an Independent Provider?**
>
> Whilst some large food producers maintain their own in-house temperature controlled storage facilities, there has been an increasing trend in some sectors (for example, the meat, horticulture and dairy sectors) towards outsourcing. Key advantages of independent storage are:
>
> - ***Operating efficiency:*** independent coldstores are able to combine the requirements of a range of producers with varying production windows to optimise utilisation, often providing storage at a lower cost than if the customer were to do it themselves.
>
> - ***Avoiding upfront investment:*** establishing new cold storage facilities involves a large capital outlay in land, buildings and refrigeration and warehouse management technology.
>
> - ***Superior service:*** independent coldstore providers run highly sophisticated warehouse inventory systems, providing vital supply chain support.
>
> - ***Proximity to key transport infrastructure:*** independent coldstores are frequently located in close proximity to key transport infrastructure including ports, rail and highways.
>
> - ***Regulatory compliance:*** independent coldstores focus on changes in the regulatory environment in New Zealand and key export markets, allowing customers to reduce their regulatory burden.

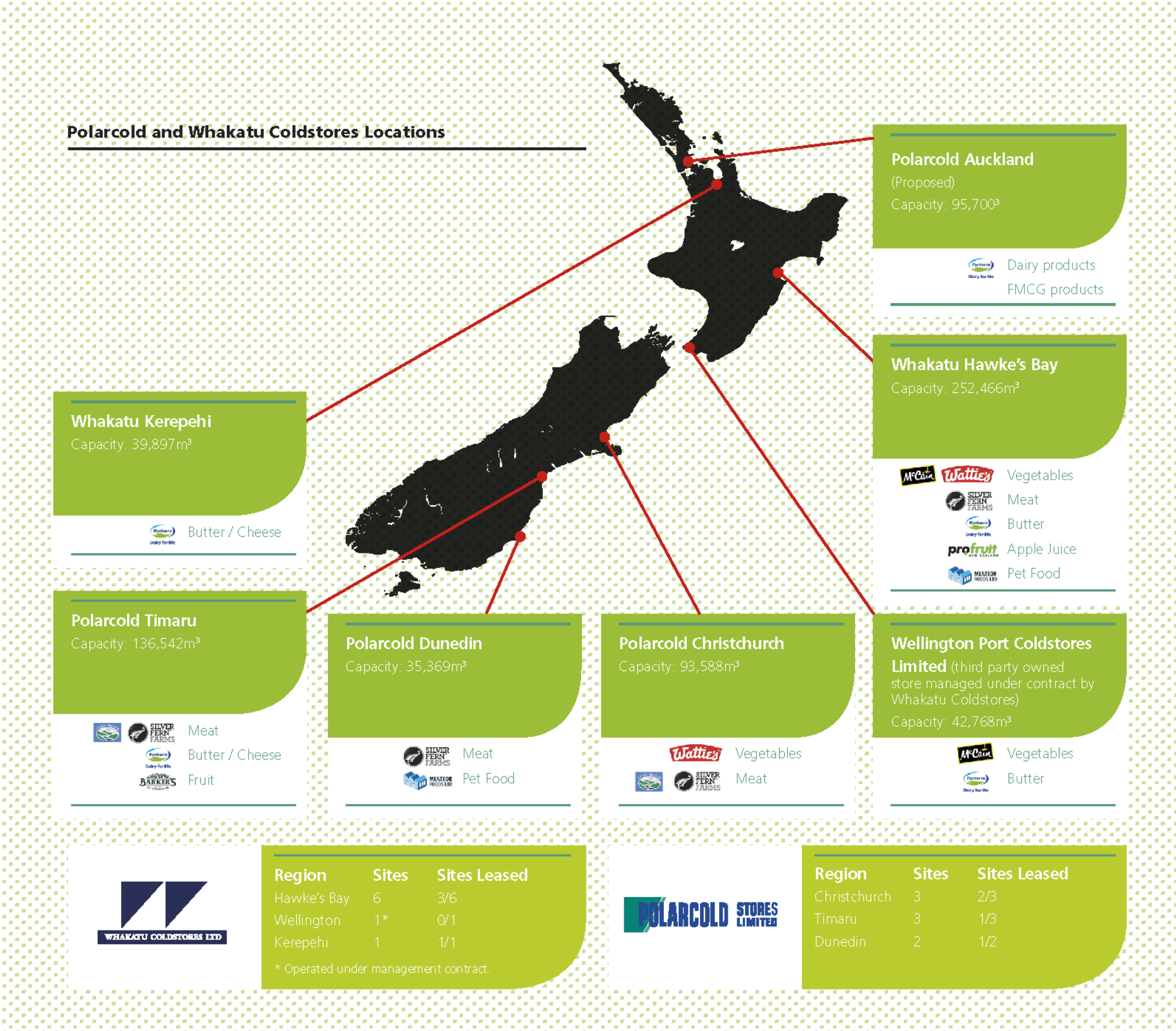
5.2.2 Polarcold and Whakatu Coldstores

Polarcold and Whakatu Coldstores offer essential supply chain services for some of New Zealand's largest primary exporters, importers and FMCG businesses.

Scales currently runs two coldstore operations. Between Polarcold and Whakatu Coldstores, we offer customers access to a near nationwide service. Following Polarcold's expansion to Auckland in late 2015, Scales will have one of the broadest temperature controlled storage networks in New Zealand.

After the rollout of Whakatu Coldstores licensed IT system at Polarcold, and subject to regulatory approvals, Polarcold and Whakatu Coldstores intend to combine under the single trading name, 'Polarcold'.

Polarcold and Whakatu Coldstores' cold storage network in New Zealand is larger than any other independent temperature controlled storage provider.[15] Generally, competition is highly localised to each production region.



Planned Auckland Expansion

A new purpose built coldstore for bulk storage and FMCG storage is planned to commence operations in late 2015. The facility will be located in South Auckland, linked to the rail network, giving us one of the broadest temperature controlled storage networks in New Zealand. The coldstore is planned to have a total storage capacity of 95,700 m^3, increasing our existing storage capacity by 16%. Its utilisation is supported by a 10 year contract with a key customer. Completion of the coldstore remains conditional on Scales and its landlord entering binding construction contracts within budget estimates by the end of October 2014. The costs associated with the Auckland coldstore project are included in the FY2015F forecast. The Auckland coldstore is not expected to become operational until late 2015 and, as a result, the forecast revenue from the project is limited in the PFI period. Sensitivity analysis in relation to the Auckland coldstore project is contained in the PFI.

[15] Based on installed storage capacity as at 31 December 2013.

Polarcold and Whakatu Coldstores' facilities are strategically located near customers' production facilities, ports and major transport infrastructure. In addition, many of the coldstores have integrated rail-sidings as well as customised racking solutions. All key regions except Kerepehi also offer blast freezing services which are especially important for meat processing customers.

Polarcold has agreed a purchase option over a site adjacent to the coldstore at Canada Crescent in Christchurch and Whakatu Coldstores has agreed a purchase option over a site adjacent to the coldstore at Whakatu Industrial Park (to be created on subdivision) should either business decide to expand its cold storage operations at the relevant location. The sites can be acquired at the option of Polarcold and Whakatu Coldstores respectively for their estimated market values of $2,300,000 and $370,000 respectively at any time up until 31 December 2015 (subject to completion of the subdivision in the case of the Whakatu site), from George H Investments Limited.

Facilities Management
The storage, transport and export of food is highly regulated in New Zealand and internationally. Polarcold and Whakatu Coldstores' facilities are regularly audited by customers and by MPI as part of its Official Assurance Programme. The majority of Polarcold and Whakatu Coldstores' facilities hold the highest level of MPI certification available.

Polarcold and Whakatu Coldstores run all sites under a regime of planned and predictive maintenance to meet customer and regulatory requirements.

In addition, we continually monitor and evaluate technological developments for operational efficiencies. For example, during 2014, Polarcold is installing state-of-the-art engine room technologies to improve energy usage at its largest coldstore in Timaru, at a cost of approximately $3 million. Similar upgrades offshore have demonstrated large efficiency gains.

Utilisation and Product Turnover
Polarcold and Whakatu Coldstores store a variety of products with varying peak production timings and stock rotations. Whilst storage requirements still peak during the height of the primary sector production season (November to May), FMCG and seafood customers, who have relatively consistent storage requirements, maintain minimum stock levels over the winter months.

We charge customers both for storage space used and product handling. Accordingly, Polarcold and Whakatu Coldstores' revenues are ultimately driven not just by utilisation, but also by customer product turnover.

Customers
Scales has a long history of providing critical supply chain services to some of New Zealand's largest food producing companies. The average length of relationship for Scales' top five temperature controlled storage customers is now well over 30 years.

Major customers with tenure greater than 15 years

Customer	% of FY2013 Revenue
Customer A	22.2%
Customer B	19.8%
Customer C	14.4%
Customer D	13.9%
Customer E	3.4%

As these relationships have progressed, our operations have become more intertwined with our customers. Many of our customers have large production facilities in close proximity to our coldstores.

Whakatu Coldstores has a sophisticated and integrated warehouse management system for all its clients. Some of their larger customers' systems are fully integrated to this warehouse management system. The system provides visibility of clients' inventory and transactions, as well as automated order picking requests to ensure timely and efficient load-outs.

The sophisticated and robust warehouse management software solution used by Whakatu Coldstores will be rolled out across Polarcold's operations in 2015. Following the completion of the software rollout programme, Polarcold and Whakatu Coldstores will be able to offer a single, comprehensive and proven inventory management solution to our customers.

5.2.3 Liqueo

Liqueo provides liquid bulk storage and aligned value-added services for the storage of tallow, edible and non-edible oils, liquid stock foods, and liquid waste products. Liqueo also offers services to test, bleach and/or drum tallow.

Liqueo primarily services customers in the meat and dairy industries, as follows:

- ***Imports:*** Edible oils, non-edible oils, and other liquids used principally as stock feeds are shipped to the Timaru and Napier ports and transferred into Liqueo's storage tanks. Trucks collect the liquids from Liqueo's tanks and distribute to the end user.

- ***Exports:*** Liqueo's customers purchase tallow from the factory gate. They subsequently arrange transportation to Liqueo's storage tanks in Timaru and Hawke's Bay. Tallow is later carried offshore for manufacturing uses. Tallow can be pumped direct to ship or placed in shipping containers using large 20 KL bladder bags, 1 KL plastic containers or 200L drums.

Facilities
Liqueo's operations are strategically located in two of New Zealand's prime agricultural regions:

- ***Timaru:*** provides an extended catchment area covering the vast majority of the South Island extending from the top of the South Island to Balclutha. Liqueo has 33 tanks at Timaru with a total installed peak capacity of 15,400 MT. Liqueo has a stainless steel food-grade pipeline and regular black steel pipeline, both running to the wharf to enable direct loading into or out of vessels.

- ***Hawke's Bay:*** provides a catchment area extending from Hawke's Bay to as far away as New Plymouth. Liqueo's Hawke's Bay operations are split across two locations, the facilities at the Whakatu Industrial Park, and the more recently developed facilities at the Port of Napier where Liqueo has a pipeline running to the wharf for direct loading to or from vessels. Liqueo has 24 tanks across Hawke's Bay with a total installed peak capacity of 6,800 MT of product.

Liqueo has installed additional capacity at both Timaru and Hawke's Bay to ensure it is positioned to capture growth in volumes. As part of Liqueo's on-going maintenance programme, a new boiler was recently installed in Timaru.

Customers
Liqueo's customers are typically bulk liquid importers and exporters with substantial liquid storage requirements. Liqueo provides these customers with:

- spare capacity for casual storage requirements;

- efficient and effective systems to rapidly move product from ship-to-container or container-to-ship to limit sea freight and berthing costs; and

- clean, airtight and separated storage which is important for most bulk liquids that can easily spoil should they be exposed to air, and in all cases would be contaminated should they come into contact with the residue of other products. Liqueo arranges for the separate storage of a wide range of bulk products and multiple grades within each product category.

Liqueo's bulk liquid facilities are leased to key customers under minimum volume term contracts. In aggregate, these lease arrangements cover more than 40% of the installed capacity across Liqueo's storage network. The remainder (approximately 60%) is available for casual or spot storage depending on the ebb-and-flow of contracted requirements.

5.2.4 Scales Logistics

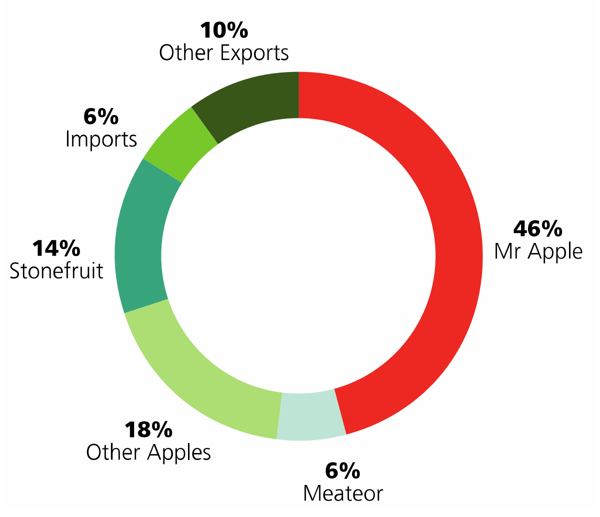
Scales Logistics, based in Christchurch with branches in Tauranga and Napier, continues Scales' 100 year involvement in the New Zealand shipping industry. Scales Logistics provides logistics services to exporters and importers of perishable products including fish, fruit and vegetables. Mr Apple and Meateor are major customers.

In 2013, Scales Logistics expanded into air-freighting solutions by establishing Balance Cargo. Balance Cargo specialises in providing air freight logistics services to a full range of export and import customers.

Scales Logistics provides sea freight services to Mr Apple, Meateor and Fern Ridge Produce. Sea freight costs are one of the major expense items for these businesses given their nature as exporters. Scales Logistics is able to use strategic volumes to negotiate favourable container shipping rates.

Scales Logistics continues to expand its customer base as more horticulture exporters seek out the lower sea and air freight costs Scales Logistics can procure. Expansion into the upper North Island/Auckland market is the next major initiative for Scales Logistics to provide a nationwide service.

Composition of Scales Logistics' Gross Margin (2013)



5.3 FOOD INGREDIENTS

Scales' Food Ingredients division consists of:

- Meateor, which processes and markets pet food ingredients for the global pet food industry; and
- A 50% ownership interest in Profruit, a leading processor of apples and kiwifruit into juice concentrate.

Both are complementary to Scales' other businesses.

5.3.1 Meateor

Meateor processes and markets pet food ingredients for the global pet food industry. Meateor operates from two sites in New Zealand, in Whakatu and Dunedin, with a combined production capacity in excess of 30,000 MT per year. These facilities provide North and South Island coverage. This extended catchment area incorporates a wide spread of supply from New Zealand's meat processing facilities.

Meateor's products are marketed to large multi-national pet food producers, for inclusion in their premium pet food ranges.

Demand for pet food is growing globally, with an increasing number of pet-owners demanding better quality pet food. Global cat and dog food retail sales grew over 21% to USD$69 billion from 2008 to 2013. The New Zealand meat industry's disease free status allows preferential access into key markets and is driving growth in its pet food industry, particularly due to the availability and reliability of meat based ingredients and innovation of retail ready products.

The two main products processed by Meateor are mechanically deboned meat (*MDM*) and offal (livers, lungs, hearts, tripe etc). Meateor predominantly processes lamb material, but also processes venison, mutton and beef. Raw material is sourced from plants that process export grade, human edible meat. Most of Meateor's raw material is supplied under rolling 12 month contracts providing stability in product flows. Meateor has also recently agreed arrangements to source raw materials from an external processor in Australia, diversifying its supply base.

Meateor has a well established and stable customer base including two of the largest multi-national pet food producers. Lamb MDM, in particular, is a key ingredient in some of their premium pet food ranges. In addition, Meateor is trialling alternative proteins to generate new revenue streams with its growing customer base.

The majority of Meateor's product is sold under rolling 12 month sales contracts – broadly matching the duration of its raw supply contracts.

5.3.2 Profruit

Scales has a 50% shareholding in Profruit, which processes apples and kiwifruit into fruit juice concentrate for domestic consumption and export to large food and beverage companies, mainly in the USA, Australia and Asia. The other 50% shareholding is held by Bostock Group Limited, which is a large family owned group of agriculturally focused companies based in Hawke's Bay.

Profruit processes approximately 44,500 MT of non-export grade apples and 4,100 MT of kiwifruit into juice concentrate annually. In 2013, Profruit sold 5.4 million litres of juice concentrate. Mr Apple supplies approximately 44% of Profruit's apple needs, with a further 17% provided by Bostock Group Limited.

5.4 NEW ZEALAND REGULATORY ENVIRONMENT

Food

Mr Apple, Profruit, Liqueo, Meateor, Polarcold and Whakatu Coldstores each operate in the food industry. The New Zealand food industry is highly regulated with a number of laws governing the manufacturing, storing, transporting and exporting of food (including pet food) with which we must comply. MPI is responsible for the regulation of the New Zealand food industry. In particular, MPI regulates, develops and implements food standards, facilitates exporting by providing assurances to exporters and destination markets and responds to suspected breaches of legislation. We meet many of our regulatory requirements through risk-based programmes which are regularly audited by MPI. These programmes include Risk Management Programmes for the manufacture of animal products, Food Safety Programmes for compliance with food hygiene requirements and Official Assurances Programmes for exporting.

The Food Act 2014 recently introduced changes to the current food regulatory regime designed to clarify the role of regulators, remove the need for local bylaws and improve compliance and enforcement.

Health and Safety

Outside of seasonal workers, the Group employs approximately 485 full time equivalent employees.

We are required to comply with health and safety legislation in New Zealand. Health and safety is regulated in New Zealand by WorkSafe New Zealand. WorkSafe New Zealand, together with the Environmental Protection Authority, also regulates the import, manufacture, storage, transport, handling and use of hazardous substances in New Zealand. WorkSafe New Zealand is a stand-alone government regulatory agency which provides policy advice on workplace health and safety.

We have an excellent health and safety record and manage our obligations by way of internal health and safety committees comprising peer selected members of staff that meet regularly to discuss all health and safety matters. These meetings are reported to the Scales Board, ensuring group-wide transparency of all health and safety issues.

The Health and Safety Reform Bill 2014 is currently before Parliament. The Bill proposes to bring New Zealand's health and safety regime closer to Australia's with a higher duty of care to employees and increased penalties for non-compliance. We are taking significant steps to ensure compliance with the new health and safety requirements proposed by the Bill.

Resource Management

The Resource Management Act 1991 (*RMA*) regulates the use of New Zealand's natural and physical resources. The RMA generally requires that environmental approvals (usually resource consents) be obtained for the use of land, water, air and other natural resources. We are required to hold a number of resource consents to operate our activities across the Group.

The RMA allows for a range of enforcement action to be taken if there is non-compliance with the RMA (for example, if resource consents are required, but have not been obtained, or if the resource consents which have been obtained have not been complied with).

5.5 BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

5.5.1 Board of Directors

Scales has established a strong Board of Directors with a balance of skills and experience relevant to Scales and its diverse businesses. The Board currently comprises Jon Mayson, Andy Borland, Tim Goodacre, Nick Harris, Mark Hutton and Alan Isaac.

Jon Mayson, Independent Chairman
Jon was elected to the Board as Chairman in 2012, having been appointed chairman of Scales' Storage & Logistics division in 2011. Jon was previously the CEO of the Port of Tauranga for 9 years from 1997 to 2005 and oversaw the Port's expansion to become New Zealand's largest export port. He is also chairman of Fronde Systems Group Limited, C 3 Limited, Ziwipeak Limited, Trevelyan's Pack and Cool Limited, Martin Aircraft Technology Limited and Titanium Technologies, and has previously been chairman of New Zealand Trade and Enterprise. Jon is also a director of Chiefs Limited and Te Arawa Group Holdings Limited. He was made a Companion of the New Zealand Order of Merit (CNZM) in 2006 for his services to the shipping industry and export.

Andy Borland, Executive Director
Andy joined Scales in 2007 and became Managing Director in 2011. Prior to joining Scales he had a 20 year career in banking, with his final role being Head of Corporate at Westpac New Zealand. Andy has overall responsibility for the strategic direction and day-to-day management of Scales. In addition to his directorships of the Group, Andy is currently a director of apple and pear industry body Pipfruit New Zealand Incorporated, a director of George H Investments Limited and has had an 18 year involvement with Central Otago deer and beef cattle breeding and fattening farming company Loganbrae Limited. Scales was previously a subsidiary of Southbury Group Limited, majority owned by entities associated with Allan Hubbard. Other entities owned by Southbury Group included South Canterbury Finance Limited, Dairy Holdings Limited (as to a 35% stake only) and Helicopters (New Zealand) Limited. From September 2007 to June 2010 Andy was engaged to provide management services to Southbury Group, the entities owned by it and New Zealand Wool Services International Limited (an entity associated with Allan Hubbard). As part of these arrangements he was a director of Southbury Group Limited (up until June 2009) and Tyrone Estates Limited, Belfast Park Limited and Braebrook Properties Limited. These four companies have subsequently been placed into receivership and then liquidation in connection with the receivership of South Canterbury Finance Limited.

Tim Goodacre, Non Executive Director
Tim was elected to the Board in 2014, having been appointed Chairman of Scales' Horticulture division in 2011. He has been involved in agribusiness for nearly forty years and was CEO of Zespri International from 2003 to 2007. Tim is currently a director of HSR Group Pty Limited and Featherston Resources Limited and has recently been appointed chairman of The Nutritious Kiwifruit Company Limited, which is a consortium of New Zealand kiwi fruit suppliers selling under a new single brand based around nutrition and health on the Australian market. Featherston Resources Limited was placed into voluntary administration by the board and a group of shareholders is seeking to bring an action against the directors and others.

Nick Harris, Non Executive Director
Nick was elected to the Board in 2014, having been appointed a director of both Scales' Storage & Logistics division and Meateor in 2011. Nick was previously the Managing Director, and is one of the founding shareholders of Hellers Limited, New Zealand's largest bacon, ham and small goods company. Nick is a shareholder and director of several private companies. He also chairs Enterprise North Canterbury Trust and is deputy chair of the Canterbury Hockey Association.

Mark Hutton, Non Executive Director
Mark was elected to the Board in 2011, initially as Interim Chairman. He is a founding director and chairman of the investment committee for Direct Capital funds, and has a background in private equity, specialising in portfolio management, investments, acquisitions and capital funding. Mark is currently a director of a number of Direct Capital entities and portfolio companies, George H Investments Limited,

Energyworks Holdings Limited, Hiway Group Limited, Stratex Group Limited and New Zealand King Salmon Investments Limited. Mark is also Chair of Scales' Remuneration Committee.

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

5.5.2 Senior Management

Andy Borland, Managing Director
Andy joined Scales in 2007 and became Managing Director in 2011. See Andy's full biography under the heading "Board of Directors" above.

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

Andrew van Workum, CEO Mr Apple
Andrew has worked in the apple industry for nearly 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.

Kevin Cahill, CEO Polarcold and Liqueo
Kevin originally joined the staff of Polarcold in 1978 as Works Manager, when the company was known as SC Co-op Cool Stores Limited. Prior to this he was employed by Waitaki Farmers Freezing Co.

Stephen Foote, CEO Whakatu Coldstores and Meateor
Stephen has been with the Whakatu Coldstores' group of companies in various management roles for 20 years. Prior to joining Whakatu Coldstores, Stephen worked for Dominion Breweries and had interests in orcharding in Hawke's Bay.

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.

5.5.3 Governance

The Board has ultimate responsibility for the strategic direction of Scales, and to ensure that Scales is properly managed to protect and enhance the interests of its Shareholders.

The Board meets formally between 10 and 12 times annually.

Corporate Governance Code
The Board has adopted a corporate governance code based on best practice which incorporates a code of ethics, securities trading policy and guidelines and charters for the Audit and Risk Committee and the Remuneration Committee. A copy of this corporate governance code can be viewed on Scales' website www.scalescorporation.co.nz.

Board Committees
In conjunction with Scales becoming listed on the NZX Main Board, the Board has formally constituted an Audit and Risk Committee and a Remuneration Committee.

Audit and Risk Committee
The Audit and Risk Committee will 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 Scales' financial position and accounting affairs and to keep under review the effectiveness of Scales' procedures for the identification, assessment and reporting of material risks.

The members of the Audit and Risk Committee are Alan Isaac (Chair), Nick Harris and Mark Hutton.

Remuneration Committee
The Remuneration Committee will establish a clear framework for oversight and management of Scales' remuneration structure, policy, procedures and practices. The Remuneration Committee will also define the respective roles and responsibilities of the Board and senior management.

The members of the Remuneration Committee are Mark Hutton (Chair), Jon Mayson and Tim Goodacre.

5.5.4 Treasury Management Policy

Scales has a Board approved Treasury Management Policy within which all foreign exchange, interest rate and related activities are conducted. The Treasury Management Policy, which is reviewed bi-annually, provides a framework for the identification, measurement, control, management and reporting of all financial risks related to external foreign exchange and interest rate movements, with the aim of ensuring that Scales achieves its financial objectives stipulated by the Board. The Board takes advice from PwC on the Treasury Management Policy and all ongoing treasury matters.

The Board reviews management reports on treasury activities at Board meetings, including reports on compliance with the Treasury Management Policy.

5.5.5 Director Remuneration and Interests

The fees for Non-Executive Directors of Scales have been fixed as a total pool of $400,000 per annum. Individual Directors' fees vary depending on the duties of the Directors, including for committee work, with current fees as follows:

Director	Fees
Jon Mayson (Chair)	$95,000
Andy Borland	Nil
Tim Goodacre	$60,000
Nick Harris	$60,000
Mark Hutton	$65,000
Alan Isaac	$70,000

Mark Hutton, Alan Isaac and Tony Batterton (a former Director) are each entitled to additional director fees of up to $75,000 to remunerate them for additional work required in preparation for the Offer.

The Directors are also entitled to be reimbursed for all reasonable travel, accommodation and other costs incurred by them in connection with their attendance at Board or Shareholder meetings or otherwise in connection with Scales business.

Directors may apply for Shares under the Broker Firm Offer in the same manner as other Broker Firm Offer Applicants. To the extent that any Directors acquire Shares, those acquisitions must be disclosed to the market as required by law.

5.5.6 Executive Remuneration and Employee Share Schemes

Senior Executive Remuneration
In addition to a fixed base salary, nominated senior executives are eligible for a bonus based on performance against financial and non-financial key performance indicators of both the individual executive and the Group. The scheme is discretionary and is reviewed by the Board annually.

The current bonus scheme allows participating senior executives the ability to be awarded with an annual bonus of up to 30% of their annual salary.

Senior Executive LTI Schemes

New Senior Executive LTI Scheme
Concurrent with the Offer, Scales has established a senior executive employee share scheme which the Board may invite senior executives to participate in on an annual basis. Under the scheme, a senior executive who is invited to participate will be offered an interest-free loan by Scales which must be used to acquire Shares in the Company. The amount of the loan will be determined at the Board's discretion, having regard to factors that include Scales' financial performance and the participant's own performance against set key performance indicators, but will not exceed a set percentage of the participant's base salary. A participant will only benefit in respect of Shares acquired under the scheme (except in very limited circumstances such as the event of a takeover), if he or she remains in employment with the Group for a period of three years from the date of acquisition of the Shares. During this restrictive period, a participant's scheme Shares will be held in the name of a custodian appointed by Scales as bare trustee. Loans must be repaid on the sale of Shares or if the senior executive leaves Scales' employment.

The first issue of Shares under the scheme (being 1,437,000 Shares issued at the Final Price) is intended to be made contemporaneously with allotment under the Offer, at the Final Price.

Existing Senior Executive LTI Scheme
In addition to the new senior executive LTI scheme, certain senior management already participate in an executive share scheme which provides participants with an interest free loan of up to 50% of the cost of Shares to which the senior manager is entitled. As at the date of this Prospectus, participants in the scheme hold 5,325,000 Shares. The existing scheme will cease upon Scales being listed and senior management who hold Shares through the scheme will be entitled to sell some of their Shares through the Offer. While the listing of Scales does not trigger a requirement for the loans to scheme participants to be repaid, if a senior manager chooses to sell Shares in the Offer they must repay the loan on a proportionate basis.

Employee Share Ownership Scheme
Concurrent with the Offer, Scales has established an employee share ownership scheme, the purpose of which is to facilitate an increase in the level of participation by employees as Shareholders, improving the alignment of interests between employees and Shareholders.

Under the scheme, eligible employees of the Group will be offered an interest free loan to acquire Shares at the Final Price. The scheme is not being made under the Offer, but the Shares offered under the scheme will be issued contemporaneously with allotment under the Offer. Each loan will be up to a maximum of $5,000 being 50% of the subscription price of Shares the eligible employee wishes to acquire. Eligible employees participating in the scheme will need to fund the remaining 50% of the subscription price. Participation in this scheme is at the invitation and discretion of the Board, but to be eligible an employee will need to be a permanent employee, not a casual worker, and have had a minimum of 24 months' employment with the Group. Loans must be repaid when Shares are sold or when the employee leaves the employment of the Group. As at the date of this Prospectus, the number of employees participating in the scheme is unknown. If all employees accepted to the maximum amount, the total value of Shares issued under the Employee Share Ownership Scheme would be $3,180,000 (being 1,718,919 to 1,987,500 Shares at the Indicative Price Range).

5.5.7 Dividend Policy

Dividends and other distributions with respect to the Shares are only made at the discretion of the Board. Scales initially intends to pay dividends annually. However, the payment of dividends is not guaranteed and Scales' dividend policy may change. The Board's decisions in relation to the level of reserves and retentions may affect any dividends or distributions you receive from the Shares.

Scales' dividend policy is to target a dividend payout ratio in respect of each financial year of between 65% and 75% of Net Profit, or Pro forma Net Profit in the case of FY2014F. Payment of dividends will always be subject to:

- satisfaction of the solvency requirements of the Companies Act;
- any banking or other funding requirements by which Scales is bound from time to time; and
- the investment and operating requirements of the Scales.

SECTION 6: WHAT ARE MY RISKS?

Any investment in the share market has risks associated with it, and this investment is no exception. Risks specific to us, and other general market risks, are set out in this section. These risks, if they were to occur, could materially adversely affect our financial position or performance through loss of assets, reduced revenue, increased costs, loss of customers and suppliers, damage to reputation, or a combination of these factors. These could reduce or eliminate the value of your Shares or the returns on them.

You should consider such risk factors together with the other information in this Prospectus. In particular, you should read *Section 5: About Scales* for further information on how we manage the risks facing our business.

The risk factors set out below are not the only ones we face. There may be additional risk factors of which we are currently unaware, or that we currently deem immaterial but which may subsequently become key risk factors for us.

6.1 PRINCIPAL RISKS

The principal risks that may have an impact on our business or financial results, and which could reduce or eliminate the value of your Shares or the returns on them are set out below (in no particular order). A full description of these risks and other material risks to which you should have regard in considering whether to invest in Scales is set out in *Section 6.2: Specific Risks* below.

- Pest and Disease Incursion Risk;
- Product Quality and Integrity Risk;
- Global Apple Supply and Pricing Risk;
- Market Access Risk;
- Climatic Risk;
- Water Access and Use Risk;
- Currency Rate and Interest Risk;
- Key Supplier and Customer Risk; and
- RSE Scheme Risk.

6.2 SPECIFIC RISKS

Set out below is a description of the specific risks that could adversely affect us. This description forms the basis for the assessment of the principal risks outlined above and it provides additional information on those risks.

Importantly, this description is not restricted to the principal risks set out above. It outlines other material risks to which you should have regard in considering whether to invest in Scales. The risks below are not set out in any particular order of priority.

Pest and Disease Incursion Risk
As an agribusiness group, we are exposed to the risk of animal disease or plant pest incursion in New Zealand.

An animal disease event, such as an uncontrolled outbreak of foot and mouth disease, is likely to have a significant adverse impact on the New Zealand economy and on us. Such an event could result in widespread culling and burning or burial of infected livestock and market access restrictions being put in place by New Zealand's international trading partners. This could have the following resulting effects on us:

- a significant loss of income in our storage division is likely to occur as meat, dairy and tallow volumes represent a large proportion of current total sales;

- Meateor may lose its raw material supply and one of its key product selling points to international markets (being the absence of major animal disease issues in New Zealand); and

- Scales Logistics may have lower container volumes for export.

A plant pest event such as an uncontrolled incursion of the Queensland fruit fly is likely to have a negative impact on the New Zealand economy, the horticultural industry and on us. Such an event could result in widespread loss of harvest produce and market access restrictions being put in place by New Zealand's international trading partners. This could have the following effects on us:

- Mr Apple may be directly adversely affected by potential fruit production losses and the loss of access to key markets;

- a loss of income in our storage division may occur as fruit and vegetable volumes represent a large proportion of seasonal sales; and

- Scales Logistics may have lower container volumes for export.

New Zealand's geographic isolation, and the strict border protection programme administered by the New Zealand Government, mitigate these risks to some extent. To date, New Zealand has a very good record of managing these risks. However, the recent trapping of two Queensland fruit flies, in separate events this year in the North Auckland region, demonstrates that these risks are real.

Product Quality and Integrity Risks
Mr Apple, Meateor, Profruit and our storage businesses must maintain a high degree of product specification and quality. Failure to meet product specification and quality requirements is a risk we face in each of our business divisions as follows:

- ***Horticulture:*** Mr Apple relies on the quality and integrity of its apples to access key markets, sell product and sustain its brand reputation. If Mr Apple cannot prevent product quality issues (for example, through its systems to monitor and control spray residue levels and prevent internal apple browning), we may lose access to key markets, product sales volumes may decrease or we may suffer reputational damage to the Mr Apple brand. Mr Apple has internal processes in place to manage its product quality, such as product testing, sample retention and monitoring and the use of an integrated, enterprise-wide software programme to ensure fruit quality and specification is maintained for each market's particular requirements.

- ***Food Ingredients:*** products from our Food Ingredients division need to be fit for sale and consumption. They may be rendered unfit for such purpose should contamination occur, whether accidental or deliberate, one-off or sustained. Isolated incidents of contamination may lead to product recalls or facility cleanings, which can affect our sales and costs respectively. Though one-off incidents are nearly impossible to eliminate, we utilise strict factory processes and product monitoring and testing to avoid them becoming prolonged. Continual issues with product quality may negatively affect our brand, sales volumes may decrease and access to some of our key markets may be prohibited.

- ***Storage & Logistics:*** our storage businesses must store client products at strictly specified temperatures and in compliance with other specifications. If we fall short of such specifications, client product may be damaged. Negligent losses could negatively affect our customer relationship and brand. Such losses will generally be covered by insurance. Accordingly, temperature levels and compliance with customer requirements are closely monitored, including by way of client audits. However, if serious damage to client product occurred, or our Storage & Logistics' division's facilities were unable to meet required specifications on an on-going basis, we may lose key customers, resulting in a significant adverse impact on the profitability of this division.

Global Apple Supply and Pricing Risk
New Zealand apple exporters, including Mr Apple, achieve a premium for their redder and sweeter apple varieties targeted at the Asian and Middle Eastern markets. If consumer tastes and preferences were to change in these markets this may reduce the premium received for these apples, which would have an impact on the profitability of our Horticulture division.

Global apple prices for each year also depend on the total global apple harvest. While the global apple market is viewed as two separate markets, being the Northern and Southern Hemispheres, the size and quality of each hemisphere's harvest can have an impact on the demand and pricing for the current harvest. Additionally, changes in the availability of alternative summer fruits can also have an impact on demand for apples. In 2013, a Northern Hemisphere apple supply shortage improved prices for Mr Apple. If future Northern Hemisphere or total Southern Hemisphere crops are larger than normal, due to favourable growing conditions or other factors, this may lower the returns achieved by Mr Apple.

Market Access Risk
We rely on continued market access to many different countries to sell our products. Accordingly, loss of access (or restricted access) to one or more of the key markets to which we export is a risk we face. Continued access requires us to meet key quality and phytosanitary requirements. A loss of access to key markets is a significant risk for Mr Apple, Profruit and Meateor in particular. New Zealand, through its exporters and with the support of MPI, has a good reputation in international markets for meeting market requirements. However, our access to key markets may also be affected by factors unrelated to our operations or products and outside of our control. Key markets may generally limit or prohibit New Zealand's exports for political or biosecurity reasons. For example, New Zealand's freedom from foot and mouth disease is essential for the continued export of our lamb products to the USA, as is the absence of codling moth in our apples exported to Taiwan. We rely on regional and bilateral free trade agreements to support and govern our access to some key markets. The New Zealand Government, or other parties to these agreements, may breach or withdraw from these agreements.

Climatic Risk
We are exposed to the risk of climatic events. In particular, Mr Apple relies on favourable climatic conditions for the successful growing of apples. While climatic events have the greatest impact on Mr Apple, such events can also adversely affect our Storage & Logistics division. For example, a large reduction in the apple crop will have an adverse impact on Scales Logistics through reduced volumes for export. In addition, our storage businesses can be negatively affected by lower volumes associated with drought conditions or excessive periods of wet or cold weather, both of which can reduce volumes of agricultural products stored in our facilities. A wide geographic spread of facilities and a diverse client base, with different product types, helps to mitigate the risk of losses from these events.

The majority of Mr Apple's apple growing activities are located in Hawke's Bay which, in general, has a temperate climate well suited to apple production. However, Mr Apple's annual apple production is subject to hail, frost and other extreme weather event damage. The wide geographical spread of Mr Apple's orchard land portfolio across Hawke's Bay, and the other measures described below, help to mitigate widespread apple production loss from the following climatic events:

- ***Hail Strike:*** a hail strike weather event generally occurs every year in Hawke's Bay. Mr Apple accounts for apple production losses associated with this in its annual budgeting process. Additionally, Mr Apple holds hail insurance cover to mitigate losses from hail strike damage. The policy has a maximum total loss payout of $5 million, which is considered adequate cover to mitigate the risk of this type of event. Mr Apple also has 6.5 ha of hail netting to cover apple trees. While this prevents hail damage, there are no plans to expand the use of this product due to significant installation costs and because it limits the amount of sunlight into the tree canopy, reducing the development of colour and brix (sugar) levels in the fruit. Notwithstanding these efforts, a catastrophic hail event could damage a large proportion of Mr Apple's annual apple crop in either Hastings or Central Hawke's Bay.

- ***Frost:*** frost occurs when air temperature at ground level reaches 0 degrees celsius or below. This can happen regularly in winter and spring in Central Hawke's Bay. Winter frosts are not damaging to apple production. However, a frost during the spring period of October and November, when apple trees are in blossom, can cause damage to apple production. To alleviate this, large diesel powered windmills have been installed in orchards where the occurrence of spring frosts is most likely. Applying sprinkler irrigation over the trees or on the ground also mitigates frost. This reduces frost severity because the sprinkled water is above 10 degrees celsius, and as water freezes it gives off heat. However, if Mr Apple does not, or is unable to, successfully implement these prevention measures and a frost occurs, apple crops may suffer damage and apple production would be inhibited.

- ***Other extreme weather events:*** storms bringing excessive rain and wind can damage the apple crop, particularly during harvest. Drought conditions can also have a negative impact on Mr Apple as regular irrigation throughout spring and summer is required to achieve budgeted apple production. Mr Apple's diverse orchard locations and access to water helps to mitigate against the risk of extreme weather causing significant loss to apple production. However, in our experience, though rare these events can be destructive.

Water Access and Use Risk
Mr Apple requires secure, sustained and adequate access to water to grow apples, mitigate frost and drought damage and achieve budgeted apple production. Water is a resource for which there are competing access and use rights and Mr Apple may not be able to access the supply of water that it requires to grow its product and prevent damage. Mr Apple has multiple water take resource consents for both irrigation and spray programmes which currently provide adequate water supply. The Government, however, is in the process of developing a package of reforms for freshwater management systems. Mr Apple could be adversely affected by these reforms if they impose restrictions or conditions on its irrigation or spray programmes, or if they impose a pricing regime on water or other additional costs on its generation activities that Mr Apple is not able to ultimately pass on to its customers.

Consent and Approvals Risk
We require a number of consents and approvals to operate our business. MPI, for example, regulates the food industry through risk-based programmes and requires certain certifications for the manufacture of animal products, compliance with food hygiene requirements and exporting. While we are audited regularly by both regulators and our customers to ensure our activities and products meet necessary requirements, we face the risk that we may breach the conditions of our consents or approvals or fail to hold all consents and approvals for our activities. We could be subject to penalties or fines for operating without required consents or approvals or we may suffer reputational and relationship damage with our customers.

Consents and approvals are generally issued for a specified term and are subject to conditions that must be complied with and which may be periodically reviewed. For example, three water take consents for Mr Apple orchards will expire in 2015 and will require renewal. Mr Apple routinely renews such consents as and when they expire. Consents and approvals that expire may not be re-consented or re-approved, or may be re-consented or re-approved on terms less favourable to us. Over time, the planning framework against which the consent or approval is assessed may become less favourable, making it harder to re-consent or re-approve, or leading to a tougher operating regime.

Currency and Interest Rate Risk
Increases in NZD, relative to the currencies we trade in, can negatively affect revenue. We are a large exporter, and each of Mr Apple, Meateor, Profruit and Scales Logistics have net USD revenue. Although all of our USD freight costs are netted against export receipts, there remain large exposures of foreign currency to manage. We have a Group-wide Treasury Policy which aims to manage and mitigate our currency exposure. You can read more about our Treasury Management Policy in *Section 5.5: Board, Senior Management and Corporate Governance*. Forecast exposures are hedged by entering into foreign exchange instruments from Rabobank and Westpac. The currencies we trade in are varied, being GBP, AUD, EUR, USD and CAD. Changes in the value of these currencies relative to the NZD affects our earnings over time.

Interest rate increases can increase the cost of borrowing. Our Treasury Policy aims to reduce uncertainty of interest rate movements through fixing rates, and also to minimise funding costs. We have a number of short, medium and long-term interest rate swap agreements in place that fix interest rates on portions of our seasonal and term debt.

Storage Customer Concentration Risk
The large majority of Polarcold, Whakatu Coldstores and Liqueo's revenues come from a small number of key customers. The loss of a major customer to a competitor, or due to that customer providing their own cold or bulk liquid storage or otherwise, could adversely affect the financial performance of this division.

Electricity Pricing Risk
Our electricity supply arrangements are essential for our storage operations. Electricity price increases could adversely affect the profitability of our storage division, as it is a large user of electricity.

Personnel Retention Risk
We are reliant on several key individuals remaining with the Group. Many of these individuals have highly specialised expertise and may be difficult to replace. We aim to maintain an empowering and stimulating work environment together with a competitive, market-benchmarked remuneration system. We have a good track record of retaining employees across all business divisions. A senior executive share scheme has been in place for almost three years. This scheme has been reviewed and will be replaced concurrently with the Offer, to encourage key executives to remain with the business for the medium to longer term. In addition, a wider employee share ownership scheme is also proposed. You can find further information about these in *Section 5.5: Board, Senior Management and Corporate Governance*.

Health and Safety Risk
All of our employees operate within various identified hazards while at work. For example, within our storage division, thousands of forklift movements are executed every day. Loading and unloading containers is a high risk operation where injury can occur if staff are not properly prepared and trained. Mr Apple employees also face an array of risks, from apple picking activities to managing controlled atmosphere storage rooms. Risk identification and mitigation is a key focus for the Board and our senior managers. All divisions have comprehensive policies and systems for implementing and monitoring occupational, health and safety issues. Notwithstanding these measures, accidents may occur which can expose staff to injury or harm. If an accident were to occur, we could be subject to litigation and fines from WorkSafe New Zealand and liable to pay compensation to affected staff.

Key Supplier and Customer Risk
We have a number of long-standing key suppliers and customers across each business division. Many relationships are secured by long-term contracts while others are on an informal basis with no written contract in place. We also have a number of orchard leases in place for our Mr Apple business, many of which are long-term leases with rights of renewal. We remain subject to the risk that such arrangements, contracts or leases might be terminated or contracts or leases not renewed upon expiry. Replacement arrangements, contracts or leases with new customers, suppliers or landlords, or renegotiated arrangements, contracts or leases with existing customers, suppliers or landlords, may be on less favourable terms. Relationships which are on an informal basis may not be honoured or may cease without notice.

RSE Scheme Risk
The efficient and timely management of Mr Apple's thinning and harvest operations requires access to seasonal labour through the RSE Scheme. The RSE Scheme is a New Zealand Government approved scheme to regulate the supply of temporary labour from overseas countries (mainly the Pacific Islands). Mr Apple is one of the largest employers participating in the RSE Scheme, bringing in over 800 workers from across the Pacific Islands at harvest time. Without the scheme, the quality and prices achieved for our apples in international markets would be adversely affected. Mr Apple would also likely incur higher labour costs. There is a risk that future Governments may revise the scheme in a way which is unfavourable to us or may revoke the scheme entirely.

Raw Material Supply Risk
The loss of supply of raw material to Meateor and Profruit is a risk. Loss of supply could be caused by a number of factors including our competitors purchasing relatively more of our suppliers' stock, changes to our supply chain that limit supply and global shortages. This is mitigated to the extent possible by offering competitive pricing for this material. This can be difficult in markets affected by reducing supply

(for example, sheep meat and bone volumes) and where exchange rates remain very high (for example, the United Kingdom and Europe for apples).

Additionally, Meateor, in particular, deals with a number of its suppliers and customers without formal contracts – most of its supply and customer contracts are casual agreements with terms negotiated annually. Although this is not uncommon in the raw meat supply industry, the informal nature of those arrangements exposes Meateor to further security of supply risks as well as revenue risks from its customers. It may also be difficult for Meateor to enforce the terms of casual and oral agreements if contracting parties default. Accordingly, Meateor is reliant on maintaining its relationship with suppliers and customers.

Availability, Cost of Capital and Banking Facility Risk
We have debt funding provided by Rabobank and Westpac by way of a term debt facility which expires in 2017 and seasonal finance which is renewed every year. A deterioration in our financial condition or instability in local or global capital markets could increase our cost of borrowing or eliminate our ability to raise additional debt or replace existing debt as it matures.

Our banking facilities contain financial covenants that are regularly monitored. Non-compliance with these covenants may result in an event of default or an event of review occurring. Consequences of an event of default may include increased financing costs, decreased or no ability of debt funding, acceleration of repayment of all outstanding amounts and enforcement of security, all of which could result in our insolvency. Events of review may have similar consequences if a satisfactory solution cannot be reached after discussion. We consider that currently there is a reasonable buffer between our forecast financial performance and the minimum banking covenants. For a description of our financing arrangements refer to *Section 7.8: Description of Scales' Financing Arrangements*.

Credit Risk
Non-payment by customers is a risk we face. When overseas customers default on payments, sales are protected by seeking payment against the collection of documents at the port the product is shipped to. In the case of apple exports, we attempt to cover the risk of payment default by obtaining debtor insurance when available for key suppliers. However, obtaining full insurance cover through the peak of the season is not always achievable or cost effective.

Insurance Risk
We are exposed to unforeseen events affecting our ability to operate. Insured or uninsured catastrophic events such as acts of God, fires, floods, tsunamis, earthquakes, widespread health emergencies, pandemics, epidemics, wars and strikes could affect the value or the availability of our assets and our ability to sustain operations, provide products and services or recover operating costs.

We hold a comprehensive insurance programme for all property, plant and equipment of the Group. Fire, general and earthquake cover is held by the Group through our captive insurer, Selacs Insurance (which is a Group member) that in turn holds reinsurance. More specialised risks are covered by external insurance providers who have expertise in that area (for example, hail insurance, marine transport and third party product liability). In the case of the cover provided by Selacs Insurance, the maximum first loss excess payable in a claim of $25 million is $2.9 million.

Our storage division was negatively affected by the Christchurch earthquakes, with Polarcold's Christchurch cold storage operations disrupted by damage to coldstores and stored product. This resulted in an insurance claim being made against Selacs Insurance, which did not exceed the excess payable by Selacs Insurance and therefore was not recovered from Selacs Insurance's reinsurers.

Some events and some assets, however, are uninsurable, or we have chosen not to insure them. For example, we are not insured against sabotage and terrorism or critical data loss. In some circumstances, we may also be exposed above our insured limits. Should damage be sustained as a result of these risks, our business and financial performance could be adversely affected. We currently insure for material damage and business interruption of up to $50 million, plus an additional $50 million in the case of earthquakes. The geographic spread of our facilities helps to mitigate the risk of an unforeseen major catastrophic event having a widespread effect on the Group.

When we undertake our annual review of insurance policies, typically in each June, we may face higher than expected costs of insurance, it may not be economically viable to take out insurance at current levels or insurance capacity may not be available at any price. It is anticipated that this situation would be greatly exacerbated should a significant natural disaster occur in New Zealand.

Transport and Distribution Risk
We are exposed to the risk of rising fuel prices, as shipping companies generally add a floating bunker adjustment factor to their contracted shipping rates. Additionally, as an exporter we rely on stable and predictable global transport links. Though we use a range of shipping companies, and our customers are spread across various countries, we are exposed to the risk of a breakdown or disruption of global transport links.

Industry Rationalisation Risk
We could be adversely affected if industry rationalisation was to occur across any of the industries we operate in. Following consolidation, our customers and suppliers may choose not to deal with us or may seek to do so on unfavourable pricing terms.

In particular, Meateor may be affected by suppliers of raw meat consolidating and diverting their supply of raw meat to competitors. Additionally, Polarcold, Whakatu Coldstores and Liqueo have a small number of customers that account for a majority of their revenue. Should customer consolidation occur, our customers may choose to use a different provider if the business with which they have merged uses a competitor's services, or may have their storage needs accommodated by in-house capabilities of the business with which they merged.

Acquisition Risk
We review potential acquisitions of complementary businesses from time to time and may undertake such acquisitions in the future. All acquisitions face the risk that returns on investment will fall short of expectations. Acquisitions could have an adverse impact on our financial results for a number of reasons, including where we fail to identify material risks or liabilities associated with the relevant business before acquisition, key staff and clients are not retained or the acquisition fails to achieve the anticipated benefits due to unexpected difficulties in integrating operations with Scales.

Legislative and Regulatory Change Risk
We face the risk that changes (or, in some cases, proposals for change, whether implemented or not) to legislation or regulation (including primary industry regulation, and new or changed environmental or food safety regulation) may adversely affect our sales, costs, relative competitive position, development initiatives or other aspects of our financial or operational performance. Also, such changes may force other undesired changes on our business model, and/or significantly increase our compliance burden.

Specific issues in relation to potential legislative or regulatory change that may adversely affect us include the following:

- ***Food industry regulation:*** The New Zealand food industry is highly regulated with a number of laws governing the manufacturing, storing, transporting and exporting of food (including pet food) with which we must comply. MPI is responsible for the regulation of the New Zealand food industry and regularly audits us. The Food Act 2014 recently introduced changes to the current food regulatory regime. Whilst we do not consider that the changes will adversely affect us, should the Act result in any consequences which we are not yet aware of, we may be adversely affected (for example, through increased compliance costs).

- ***Health and Safety reform:*** We are required to comply with health and safety legislation in New Zealand, regulated by WorkSafe New Zealand. The Health and Safety Reform Bill 2014 is currently before Parliament, and it proposes a higher duty of care to employees and increased penalties for non-compliance. We are taking significant steps to ensure compliance with the new health and safety requirements proposed. Should the Bill pass, however, and we are not able to meet the new compliance standards, we may be adversely affected.

- ***Resource Management Act reform:*** Reform of the Resource Management Act 1991 could change the planning framework against which any future resource consents are assessed, making it harder to obtain consents (or replacement consents), or leading to a more restrictive operating regime.

Reputation Risk
We have a large, complex and, in some divisions, highly specialised business. This presents a number of reputational risks. We could be adversely affected should we, or any of the industries we operate in, receive negative publicity. The effect on us could be a reduction in sales or an increase in costs, which may affect financial performance. Specific issues that could give rise to reputation risk include:

- errors by Directors, management, contractors or related industry operators that negatively reflect on us;

- errors by us in product supply, product quality, billing or general customer communications;

- our competitors selling contaminated product and/or having their reputation harmed in such a way that a negative view of all products in that market is formed, including ours;

- any adverse environmental impact caused, or perceived to have been caused, by our operations;

- a health and safety incident occurring on premises or land under our operational control or being caused by us or our contractors; and

- a reduction in corporate citizenship standards that reflect poorly on our reputation.

South Canterbury Finance Risk
Prior to Direct Capital Investments Limited acquiring Shares, Scales was majority owned by South Canterbury Finance Limited (*SCF*), which was in receivership. Scales itself was not in receivership, but SCF's shares in Scales were sold by SCF's receivers. In May 2011 Scales agreed tax loss offset agreements in relation to its 30 June 2010 and 30 June 2011 income tax years (the *Loss Offset Agreements*) with SCF through its receivers. In the Loss Offset Agreements SCF confirmed, among other things, that SCF had net losses which were available to be offset for the applicable periods. The losses ultimately received by Scales from SCF were $9.0 million and $17.7 million for the 30 June 2010 and 30 June 2011 years respectively. If the losses received from SCF were ultimately deemed to be invalid (noting that Scales has no reason to believe that this may be the case) this would potentially result in additional tax payable (estimated at $2.7 million and $5.3 million for the 30 June 2010 and 30 June 2011 years respectively) and may incur penalties and interest for Scales.

Litigation and Disputes Risk
We may, from time to time, be the subject of complaints, litigation, inquiries or audits initiated by customers, employees, commercial partners, suppliers, landlords, government agencies, regulators or other third parties alleging or investigating matters such as asset ownership, resource use, product quality and supply issues, injury, health, employment, environmental, safety or operational concerns, nuisance, negligence, failure to comply with applicable laws and regulations or failure to comply with contractual obligations.

Any such matter, even if successfully addressed without direct adverse financial effect, could have an adverse effect on our reputation and divert our financial and management resources from more beneficial uses. If we were found to be liable under any such claims this could have a material adverse effect on our future financial performance.

Advancement of Technology Risk
Polarcold and Whakatu Coldstores provide a valuable service to our customers. However, there is the risk that technological advancements in the preservation of food could render the freezing of food products redundant – significantly disrupting the business model of Polarcold and Whakatu Coldstores. Additionally, failure to keep up to date with technological advancements could result in our competitors having an advantage over us, which could negatively affect both our financial performance and reputation.

Information Technology Risk
We use information technology systems to manage our businesses. In particular, Mr Apple relies on its proprietary software system for its orchard management programme and for traceability of fruit. In addition, Whakatu Coldstores' inventory management system, which is soon to be rolled out to Polarcold, is a key feature for customers' effective stock management. A fault in or disruption to our information technology systems could cause disruption to our business due to loss of information critical to our performance of services and management of assets and produce. The consequences of such a disruption may include damage to our products and reputation, customer dissatisfaction with our services and consequentially negative impacts on our financial performance.

Direct Capital Retained Shareholding Risk
Direct Capital Investments Limited (and/or its co-investors) will continue to hold a significant shareholding in Scales after the Offer. This means that each of those parties may be able to influence the composition of the Board, the appointment of new senior management and the potential outcome of matters submitted to a Shareholder vote. The sale of Shares in the future by each of those parties could adversely affect the market price of the Shares.

6.3 GENERAL INVESTMENT RISKS

Set out below is a description of the general investment risks that may affect your investment, should you decide to invest in Scales.

These risks are not particular to an investment in Scales, but are applicable to investments in shares generally and should be considered by you when making your investment decision. The risks below are not set out in any particular order of priority.

Economic Risk
Like any other investment, returns from Shares are influenced by the levels of economic activity and uncertainty. For example, a contraction in the New Zealand or global economy may affect our performance by reducing demand for our products and services and/or affecting our costs.

Taxation Risk
A change to the existing rate of company income tax, or other amendments to tax law or practice in New Zealand may affect returns on Shares. A change to tax law applying to you personally could affect your individual returns.

General Market Risk
Prior to this Offer, there has been no public market for the Shares. There can be no assurance that an active trading market in the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the NZX Main Board at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which a person or entity is able to sell their Shares. Future issues of Shares may dilute your interest in Scales and affect the trading price of Shares.

Factors such as changes in the New Zealand or international regulatory environment, New Zealand and international equity and debt markets, NZD and foreign currency movements, and the New Zealand and global economies could cause the market price of the Shares to fluctuate after the Offer.

The market prices of stocks have historically been variable, including in response to changes in capital markets or the economy.

6.4 CONSEQUENCES OF INSOLVENCY

In the event of the insolvency of Scales, you will not be liable to pay any money to any person. All creditors (secured and unsecured) of Scales will rank ahead of your claim as a Shareholder, if the company is liquidated. After all such creditors have been paid, any remaining assets will be available for distribution among all Shareholders who rank equally. Any distribution made on liquidation of Scales may be less than the amount of your investment or you may not receive any amount.

SECTION 7: FINANCIAL INFORMATION

You can find detailed information about our historical and prospective financial performance and financial position in this section, including the important assumptions that have been used in the preparation of the PFI.

This section should be read in conjunction with the risk factors set out in *Section 6: What are my Risks?* and other information contained in this Prospectus. The financial information is presented in NZD rounded to the nearest thousand dollars.

If you do not understand the information in this section you should consult a financial advisor.

7.1 HOW SCALES MAKES MONEY AND OVERVIEW OF FINANCIAL PERFORMANCE

7.1.1 A Summary of How Scales Makes Money

Scales is a diversified agribusiness group that operates in, and provides services to, New Zealand's primary export sector.

At a high level, Scales makes money through each division as follows:

- ***Horticulture:*** by growing, packing and marketing apples;
- ***Storage & Logistics:*** by selling cold storage, bulk liquid storage and freight services; and
- ***Food Ingredients:*** by processing and marketing production by-products.

Further information about the drivers of divisional performance is set out later in this section.

7.1.2 Pro Forma Financial Performance

$000	FY2012	FY2013	FY2014F	FY2015F
Horticulture Revenue	134,227	174,171	154,967	158,881
Storage & Logistics Revenue	77,243	91,662	90,227	93,374
Food Ingredients Revenue	33,601	33,113	35,489	34,794
Other Revenue	2,836	3,081	3,125	3,125
Intercompany Eliminations[16]	(26,219)	(29,811)	(29,881)	(29,781)
Total Revenue	**221,688**	**272,216**	**253,927**	**260,393**
Horticulture Cost of Sales	(104,577)	(127,391)	(111,501)	(113,666)
Storage & Logistics Cost of Sales	(49,479)	(62,783)	(61,664)	(62,890)
Food Ingredients Cost of Sales	(27,257)	(27,178)	(30,122)	(29,558)
Other Cost of Sales	(317)	(23)	-	-
Intercompany Eliminations[16]	23,448	26,731	26,616	26,517
Total Cost of Sales	**(158,182)**	**(190,644)**	**(176,671)**	**(179,597)**
Gross Profit	**63,506**	**81,572**	**77,256**	**80,796**
Gross Profit %	28.6%	30.0%	30.4%	31.0%
Administrative, Operating Expenses, and Other Income and Expenses	(37,563)	(40,383)	(39,483)	(40,960)
Share of profits of associate company and joint venture accounted for using the equity method	1,467	1,567	1,038	1,412
Pro forma EBITDA	**27,410**	**42,756**	**38,811**	**41,248**
Depreciation & Amortisation	(8,035)	(8,839)	(9,323)	(9,630)
Pro forma EBIT	**19,375**	**33,917**	**29,488**	**31,618**
Capital employed[17]	185,893	197,578	198,727	199,731
Return on capital employed[18]	10%	17%	15%	16%

There are no Pro forma adjustments to FY2015F Financial Performance.

[16] Eliminations offset the revenue charged mostly by Storage & Logistics to other divisions (specifically Horticulture and to a lesser degree Food Ingredients).

[17] Calculated as Non Current Assets plus Current Assets (excluding any cash or cash equivalent balances) less Current Liabilities (excluding any Overdraft or Short-Term Debt balances).

[18] Calculated as Pro forma EBIT / capital employed.

7.1.3 Drivers of Financial Performance

Horticulture

In order to maximise profitability, our Horticulture division seeks to:

- maximise apple volumes whilst ensuring strict compliance with customer's agronomy requirements (for example the use of pesticides and chemicals);
- minimise the costs associated with harvesting apples and running post-harvest operations without compromising quality or service;
- charge a competitive rate for packing, cool storage and marketing services provided to external apple growers; and
- sell apples (both our own and external growers') for the maximum value possible in international markets.

Apple Volumes
Volumes are driven by the total planted orchard area and yields achieved on those orchards.

Since 2013, Mr Apple's total planted orchard area has grown substantially due to:

- Mr Apple taking on two new long-term leases in late FY2012, increasing our total planted orchard by 18%; and
- Mr Apple undertaking a large orchard replanting and regrafting programme, covering almost 270 ha in the last 6 years. While this had the effect of reducing producing orchard in the initial years, the number of mature hectares is now expected to increase each year until 2021 (assuming no further redevelopment). Regrafted trees generally start to produce fruit in their third summer (about 30 months after regrafting) and generally reach maturity in their sixth or seventh summer (about 66 or 78 months after regrafting).

Volumes are also heavily influenced by the saleable production volume achieved from each planted ha (*yield*) as only blemish-free, quality fruit can be sold internationally. Mr Apple consistently achieves superior export yields per ha. The associated higher volumes make it easier for Mr Apple to cover its fixed overheads and generate a more meaningful return on its orchard investment. Over time, through superior orchard practices, Mr Apple has been steadily increasing yield for key varieties.

Apple Price
The average price received for our apples is a function of three components:

- the in-market prices achieved for each variety;
- the varietal mix; and
- foreign exchange rates.

In-market prices
Asian and Middle Eastern markets have demonstrated strong growth in per capita apple consumption in recent years. We consider this growth in consumption, coupled with limited domestic supply, has resulted in a willingness for consumers to pay a significant premium for varieties targeted to specific consumer preferences in these markets.

In-market prices achieved for key varieties in Mr Apple's target Northern Hemisphere markets have also improved in recent years. We consider this has largely been driven by the shortening of supply to these markets as Southern Hemisphere exporters have diverted volumes to Asian and Middle Eastern markets.

New Zealand apple growers have consistently achieved better prices for their fruit than other Southern Hemisphere producers. We consider that this price premium is due to New Zealand's consistently high quality fruit, its clean and green image and excellent agronomy practices. These factors give international buyers confidence about the manner in which apples are grown, picked and stored.

Varietal mix
Mr Apple has increased production of new premium varieties that are redder in colour and sweeter in taste, to suit the preferences of Asian and Middle Eastern consumers in particular. These varieties include NZ Queen, NZ Rose, Pink Lady, and red sports (an apple 'sport' is a sub-variety within a broader varietal group) of Fuji and Royal Gala, and achieve a premium of up to 50% on conventional varieties.

See *Section 5.1.2: Mr Apple* for a break down of Mr Apple's planted orchard by variety over time.

Foreign exchange rates
As an exporter, Mr Apple will generally benefit from lower exchange rates. Whilst relatively high exchange rates over recent years have generally been detrimental for New Zealand exporters, this has been more than offset by improvements in the in-market prices received for New Zealand apples.

Commissions and Other External Grower Services
In 2013, external growers accounted for 32% of the total volume exported by Mr Apple. Mr Apple charges its external growers a commission of approximately 6% for selling their apples. This commission compensates Mr Apple for sale and marketing costs and represents a 'royalty' payment to access the Mr Apple brand and Mr Apple's international customers.

In addition to commissions, Mr Apple packs and provides cool storage services for external Hawke's Bay growers. External growers are charged competitive, market-based rates for the provision of these services.

Storage & Logistics

In order to maximise profitability, our Storage & Logistics division seeks to:

- sell cold storage and bulk liquid storage space at competitive rates;
- optimise year round utilisation of installed capacity; and
- provide a high level of customer service at the lowest cost.

Each company within the Storage & Logistics division charges for space in a slightly different way:

- ***Polarcold and Whakatu Coldstores:*** generally charge customers for goods stored for each calendar month, based on space and levels of handling.

  Prices for cold storage and any associated services are reviewed with customers on a regular basis or as contractually permitted. Over time, prices tend to increase to reflect increases in costs of providing service (such as electricity and labour).

- ***Liqueo:*** generally charges customers a fixed lease to secure space for their product, with casual rates applying to storage in excess of leased space.

  Customers agree to fixed term contracts that are reviewed at the end of their term. Such contracts specify the lease cost for fixed space availability as well as charges for any excess (casual) storage, handling charges and charges for any value added services.

- ***Scales Logistics:*** charges a margin above the cost of sea or air freight.

Our Storage & Logistics division continually seeks to optimise year round utilisation of its storage infrastructure by securing customers with peak storage requirements that vary across an extended production season (for example dairy products with peak supply from late spring complement horticultural products with peak supply in autumn), as well as customers with counter-seasonal or relatively static storage requirements throughout the year (for example FMCG customers).

Food Ingredients

In order to maximise profitability, our Food Ingredients division seeks to:

- source sufficient volumes of production by-products at competitive rates;
- minimise the costs associated with converting those products into tradeable ingredients; and
- sell those ingredients in international markets for maximum value.

7.2 OVERVIEW OF SCALES' PRO FORMA (NON-GAAP) FINANCIAL INFORMATION

Scales' historical financial statements have been prepared in accordance with NZ GAAP. They comply with NZIFRS, as well as IFRS. Information included in this section is non-GAAP financial information. An explanation of why Scales has presented Pro forma financial information is set out below. In order to assist readers of our financial statements to better understand our financial performance, we use two non-GAAP financial measures, being EBITDA and Average Prospective Net Debt. A reconciliation of Net Profit to Pro forma EBITDA is also included later in this section.

7.2.1 Pro Forma Financial Information

The following unaudited, non-GAAP financial information represents historical and prospective financial information that has been adjusted for specific items to assist potential investors with comparing our profitability on a consistent basis. It is provided in addition to the PFI presented in *Section 7.3: Prospective Financial Information*.

Presented below is selected historical and prospective non-GAAP financial information and a description of how this non-GAAP financial information is measured for FY2012 to FY2015F.

Historically, Scales had four operating divisions, being Food Ingredients, Horticulture, Storage & Logistics and Investments. Investments included investment properties and a shareholding in NZX listed Turners & Growers Limited.

During February 2014, Scales' shareholders approved a proposal for the demerger of the Investments division from the Group. This demerger was effective on 30 April 2014, with Scales' shareholders at that time being issued with shares in George H Investments Limited, the holding company for the Investments group.

Cashreal Properties Limited, which owned Scales House, the Christchurch head office for the Group, was liquidated in 2014 after the earthquake insurance settlement for the building and the sales proceeds for the land were received.

In order to assist readers of Scales' financial statements to better understand the financial performance and financial position of the continuing operations of Scales, the following adjustments have been made to the historical financial information and to the PFI presented elsewhere in this document:

1. interest income and dividends received from other companies, previously included in revenue, are now included in other income (this has no impact on the Pro forma Net Profit);

2. net foreign exchange gains and proceeds of hail insurance, previously included in other income are now included in revenue (this has no impact on the Pro forma Net Profit);

3. the income and expenses relating to the companies in the Investment division have been excluded from the Pro forma consolidated statements of financial performance for FY2012 and FY2013;

4. the income and expenses relating to Cashreal Properties Limited have been excluded from the Pro forma consolidated statements of financial performance for FY2012 and FY2013;

5. the income and expenses relating to the companies in the Investment division for the period from 1 January 2014 to demerger on 30 April 2014 have been excluded from the Pro forma consolidated statement of financial performance for FY2014F;

6. the Offer costs have been excluded from the Pro forma consolidated statement of financial performance for FY2014F;

7. the assets and liabilities of, and the investments in and inter-company advances with, the companies in the Investment division have been excluded from the statements of financial position as at the end of FY2012 and FY2013; and

8 the assets and liabilities of, and the investments in and inter-company advances with, Cashreal Properties Limited have been excluded from the statement of financial position for FY2012.

There have been no changes to the FY2014F prospective statement of financial position or the PFI for FY2015F from what is presented in *Section 7.3: Prospective Financial Information*.

Pro Forma Consolidated Statements of Financial Performance

$000	Note	**FY2012**	**FY2013**	**FY2014F**	**FY2015F**
Revenue	1, 2	221,688	272,216	253,927	260,393
Cost of Sales		(158,182)	(190,644)	(176,671)	(179,597)
Gross Profit		63,506	81,572	77,256	80,796
Share of profits of associate company and joint venture accounted for using the equity method		1,467	1,567	1,038	1,412
Other income	1, 2	730	578	-	-
Other losses		(2,748)	(712)	-	-
Administration and operating expenses		(35,545)	(40,249)	(39,483)	(40,960)
EBITDA		**27,410**	**42,756**	**38,811**	**41,248**
Depreciation & Amortisation		(8,035)	(8,839)	(9,323)	(9,630)
EBIT		**19,375**	**33,917**	**29,488**	**31,618**
Interest		(8,195)	(7,214)	(4,156)	(3,287)
Profit Before Income Tax		**11,180**	**26,703**	**25,332**	**28,331**
Income Tax Expense		(4,342)	(7,144)	(6,802)	(7,537)
Net Profit		**6,838**	**19,559**	**18,530**	**20,794**
RECONCILIATION TO GAAP INFORMATION:					
Offer costs	6	-	-	(2,875)	-
Profit (loss) for the year of demerged George H Investments Ltd Group:	3, 5				
- Revenue		8,691	2,177	764	-
- Other income		1,256	931	-	-
- Other (losses)		(1,142)	(658)	-	-
- Impairment of non-current assets		-	(2,044)	-	-
- Cost of sales and expenses		(6,868)	(423)	(389)	-
- Taxation		1,502	(478)	(105)	-
		3,439	(495)	270	-
Profit for the year of Cashreal Properties Limited (liquidated during 2014)	4				
- Revenue		84	20	-	-
- Insurance gain on building (2012) and gain on sale of land (2013)		3,373	1,360	-	-
- Expenses		(16)	-	-	-
- Taxation		(94)	(6)	-	-
		3,347	1,374	-	-
Net Profit as Reported in Historical Financial Statements and PFI		**13,624**	**20,438**	**15,925**	**20,794**

Pro Forma Consolidated Statements of Financial Position

$000	Note	FY2012	FY2013	FY2014F	FY2015F
Total Equity		**98,308**	**123,373**	**145,656**	**153,480**
Represented by:					
Current Assets					
Cash and bank balances		-	4,148	-	2,102
Trade and other receivables		9,661	12,678	12,998	13,334
Other financial assets		2,763	2,058	1,904	1,749
Inventories		11,075	11,096	11,134	11,041
Current tax assets		2	-	-	-
Other current assets		2,441	2,132	2,132	2,132
Total Current Assets		**25,942**	**32,112**	**28,168**	**30,358**
Non-Current Assets					
Investments accounted for using the equity method		5,475	5,052	5,052	5,052
Other financial assets		2,785	3,351	3,051	3,051
Property, plant and equipment		134,375	145,115	145,210	145,562
Biological assets		25,879	26,853	28,465	29,800
Goodwill		5,319	5,319	5,319	5,319
Other intangible assets		1,364	1,670	1,251	917
Total Non-Current Assets		**175,197**	**187,360**	**188,348**	**189,701**
Total Assets		**201,139**	**219,472**	**216,516**	**220,059**
Current Liabilities					
Trade and other payables		(14,156)	(15,578)	(14,925)	(15,115)
Short-term borrowings and bank overdraft		(11,058)	-	(4,716)	-
Current tax liabilities		-	(1,569)	(2,267)	(2,512)
Other financial liabilities		(1,089)	(599)	(599)	(599)
Total Current Liabilities		**(26,303)**	**(17,746)**	**(22,507)**	**(18,226)**
Non-Current Liabilities					
Borrowings		(59,632)	(60,000)	(30,000)	(30,000)
Deferred tax liabilities		(14,114)	(16,688)	(16,688)	(16,688)
Other financial liabilities		(2,782)	(1,665)	(1,665)	(1,665)
Total Non-Current Liabilities		**(76,528)**	**(78,353)**	**(48,353)**	**(48,353)**
Total Liabilities		**(102,831)**	**(96,099)**	**(70,860)**	**(66,579)**
Net Assets		**98,308**	**123,373**	**145,656**	**153,480**
Reconciliation to GAAP Information:					
Assets and liabilities of George H Investments Ltd. Group and Cashreal Properties Ltd:	7, 8				
Current Assets					
- Properties held for sale		2,200	2,125	-	-
- Other (cash at bank, receivables, other current assets)		412	630	-	-
Non-Current Assets					
- Investment properties		25,827	22,334	-	-
- Property, plant, equipment and other intangible assets		11,601	6,991	-	-
- Shares in listed company		19,899	21,106	-	-
Current liabilities (payables, current tax liabilities)		(221)	(476)	-	-
Non-current liabilities (deferred tax)		(953)	(770)	-	-
Total Net Assets as Reported in Historical Financial Statements and PFI		**157,073**	**175,313**	**145,656**	**153,480**

7.2.2 Pro Forma Segmental Financial Performance

Scales comprises the following operating divisions that will continue following the demerger:

- ***Horticulture:*** includes Mr Apple and a 50% interest in Fern Ridge Produce;
- ***Storage & Logistics:*** includes Polarcold, Whakatu Coldstores, Liqueo and Scales Logistics;
- ***Food Ingredients:*** includes Meateor and a 50% interest in Profruit; and
- ***Other:*** includes Head Office and the captive insurer Selacs Insurance.

The table below sets out the Pro forma financial performance of Scales on a divisional basis for FY2012 and FY2013. Equivalent information for FY2014F and FY2015F is presented in *Section 7.3.3: Overview of Prospective Financial Information by Segment.*

Pro Forma Segmental Reporting

$000	Horticulture	Storage & Logistics	Food Ingredients	Other	Intercompany Eliminations	Total
31 DECEMBER 2012						
Revenue from External Customers	134,227	53,713	33,601	147	-	221,688
Inter-segment Revenue	-	23,530	-	2,689	(26,219)	-
Total Segment Revenue	134,227	77,243	33,601	2,836	(26,219)	221,688
Total Segment Cost of Sales	(104,577)	(49,479)	(27,257)	(317)	23,448	(158,182)
Gross Profit	**29,650**	**27,764**	**6,344**	**2,519**	**(2,771)**	**63,506**
Share of profits of associate company and joint venture accounted for using the equity method	-	-	1,467	-	-	1,467
Other income	624	27	-	79	-	730
Other losses	(2,658)	48	(146)	8	-	(2,748)
Administration and operating expenses	(17,278)	(13,811)	(2,197)	(5,030)	2,771	(35,545)
EBITDA	**10,338**	**14,028**	**5,468**	**(2,424)**	**-**	**27,410**
Depreciation & Amortisation	(3,418)	(3,909)	(609)	(99)	-	(8,035)
EBIT	**6,920**	**10,119**	**4,859**	**(2,523)**	**-**	**19,375**
Interest	(1,095)	-	-	(7,100)	-	(8,195)
Profit Before Income Tax	**5,825**	**10,119**	**4,859**	**(9,623)**	**-**	**11,180**
Income Tax Expense	(3,668)	273	9	(956)	-	(4,342)
Net Profit	**2,157**	**10,392**	**4,868**	**(10,579)**	**-**	**6,838**
31 DECEMBER 2013						
Revenue from External Customers	174,171	64,776	33,113	156	-	272,216
Inter-segment Revenue	-	26,886	-	2,925	(29,811)	-
Total Segment Revenue	174,171	91,662	33,113	3,081	(29,811)	272,216
Total Segment Cost of Sales	(127,391)	(62,783)	(27,178)	(23)	26,731	(190,644)
Gross Profit	**46,780**	**28,879**	**5,935**	**3,058**	**(3,080)**	**81,572**
Share of profits of associate company and joint venture accounted for using the equity method	490	-	1,077	-	-	1,567
Other income	515	48	-	15	-	578
Other losses	(675)	(78)	(120)	161	-	(712)
Administration and operating expenses	(21,583)	(14,986)	(2,185)	(4,575)	3,080	(40,249)
EBITDA	**25,527**	**13,863**	**4,707**	**(1,341)**	**-**	**42,756**
Depreciation & Amortisation	(3,815)	(4,313)	(643)	(68)	-	(8,839)
EBIT	**21,712**	**9,550**	**4,064**	**(1,409)**	**-**	**33,917**
Interest	(945)	(56)	-	(6,213)	-	(7,214)
Profit Before Income Tax	**20,767**	**9,494**	**4,064**	**(7,622)**	**-**	**26,703**
Income Tax Expense	(5,714)	(2,553)	(838)	1,961	-	(7,144)
Net Profit	**15,053**	**6,941**	**3,226**	**(5,661)**	**-**	**19,559**

7.2.3 Trends in Historical Pro Forma Financial Performance

In the financial years FY2012 and FY2013, at the EBITDA level:

- Horticulture experienced a significant uplift in profitability in FY2013, arising from orchard expansion, a favourable growing season, investments in technology, initial volumes from redeveloped orchards producing varieties that command significant price premiums and strong prices generally;

- Storage & Logistics delivered consistent profit; and

- Food Ingredients produced an above average return in FY2012 and returned to historical levels in FY2013.

Horticulture

This section summarises key changes in performance as explained by relevant movements in key drivers described above.

FY2012 Drivers of Performance

- ***Weighted average apple prices (NZD equivalent):*** pricing in FY2012 was generally consistent with prior years.

- ***Volumes (orchards and yields):*** total Mr Apple own-grown export volumes were slightly over 2.1 million TCEs in FY2012, equating to a yield of 2,516 export TCEs per ha and representing a 7.2% increase on FY2011 volumes driven by an approximately 50 ha increase in total planted orchard.

FY2013 Drivers of Performance

- ***Weighted average apple prices (NZD equivalent):*** an approximate 18% improvement in NZD FOB prices per TCE reflecting:

    - stronger prices from the United Kingdom and Europe, driven by a number of factors including Northern Hemisphere supply shortages;

    - an increase in the proportion of sales of premium varieties to Asian and Middle Eastern markets; and

    - favourable growing conditions producing particularly high colour and high brix (sweeter) fruits.

- ***Volumes (orchards and yields):*** two factors drove a substantial increase in export volumes:

    - Mr Apple took on two new leases with more than 155 ha of planted orchard, increasing its total planted orchard by 18%; and

    - a significant improvement in export yields (improvement to 2,755 export TCEs per planted ha). This was driven by favourable growing conditions and improvements in orchard management (including superior use of irrigation technologies, reflective foil, tree spacing and pruning programmes).

- ***Other changes:*** an increase in orchard related direct costs largely reflects 'catch-up' orchard maintenance in the new leases taken on to bring those orchards into line with Mr Apple best practice. Some additional cost was incurred relating to a localised hail strike which was largely mitigated through attentive thinning.

    Labour efficiencies achieved in the Whakatu packhouse following the installation of the new defect sorter are likely to be further improved upon in subsequent years as costs associated with integration and determining optimal use of the new equipment are not repeated.

Storage & Logistics

Profitability across FY2012 and FY2013 was consistent, with each of the three businesses within the Storage & Logistics division delivering steady results across the period.

FY2012 Drivers of Performance – Polarcold and Whakatu Coldstores

- ***Prices charged for storage:*** pricing for storage in FY2012 was generally consistent with prior years.

- ***Inwards goods received:*** the volume of goods received in FY2012 was approximately 13% higher than in the twelve month period to December 2011. This was largely due to a full year of results from the Kerepehi coldstore, higher volumes of dairy storage at the Port of Napier and a return to average levels of horticultural storage in Christchurch.

FY2013 Drivers of Performance – Polarcold and Whakatu Coldstores

- ***Prices charged for storage:*** pricing for storage in FY2013 was generally consistent with prior years. Some increases in pricing resulted from passing through increased costs (such as electricity and labour) to customers.

- ***Inwards goods received:*** there was a slight reduction in volumes in FY2013, especially at Whakatu Coldstores. This is considered to be in part due to the 2012-2013 prolonged dry period.

FY2012 Drivers of Performance – Liqueo

- ***Storage revenues:*** storage revenues in FY2012 were generally consistent with prior years.

- ***Cost control:*** substantial savings in labour and heating were achieved in the Timaru facility in FY2012 following focus of key management on these costs. This resulted in a significant improvement in EBITDA.

FY2013 Drivers of Performance – Liqueo

- ***Storage revenues:*** storage revenues in FY2013 were generally consistent with FY2012.

- ***Cost control:*** reduced volumes in the South Island were offset by a strong increase in volumes in the North Island. However, total volumes exceeded the installed capacity in the North Island and Liqueo leased space from other bulk liquid storage companies to accommodate this overflow, increasing costs and lowering margins. Newly installed capacity in the North Island should reduce the need for outside storage in the future.

FY2012 Drivers of Performance – Scales Logistics

- ***EBITDA:*** Scales Logistics' profitability in FY2012 was similar to the financial year ended 30 June 2011, with volumes, margins and overheads generally consistent.

FY2013 Drivers of Performance – Scales Logistics

- ***Volumes:*** traditional sea freight volumes increased by 16% due to increased apple volumes for both Mr Apple and other apple customers. In addition, FY2013 was the first full year of operations for Balance Cargo, our specialist air freighting business.

- ***EBITDA:*** additional volume drove increased gross margins, offset by increases in overheads principally associated with Balance Cargo. Total EBITDA was consistent with FY2012.

Food Ingredients

FY2013 EBITDA for Meateor was lower than FY2012 EBITDA by approximately 9%. Profruit FY2013 EBITDA was affected by reductions in global apple juice concentrate prices.

FY2012 and FY2013 Drivers of Performance

- ***Margins:*** for Meateor, gross margins declined between FY2012 and FY2013. For Profruit, profits in FY2013 were lower than FY2012 following an approximate 20% reduction in global apple juice concentrate prices.

- ***Volumes:*** for Meateor, total volumes sold reduced slightly from 16.2 million kgs in FY2012 to 15.3 million kgs in FY2013. For Profruit, volumes received have oscillated around a four year average of approximately 42 million kgs, with peak volumes recorded in FY2013.

7.2.4 Trends in Prospective Pro Forma Financial Performance

Overview of EBITDA for FY2014F

FY2014F EBITDA is forecast to decrease from $42.8 million to $38.8 million, reflecting:

- Lower apple volumes in the Horticultural division. FY2013 growing conditions were very favourable, whilst FY2014F apple volumes were affected by a hail event in December 2013.

- Lower apple prices. Following a strong uplift in global apple prices during FY2013, apple prices have been assumed to reduce slightly in FY2014F.

- Consistent performance in the Storage & Logistics division, with overall EBITDA up by 1%.

- Lower contribution from the Food Ingredients division reflecting lower margins on pet food sales (following an increase in the cost of raw materials that has not been able to be fully passed on to customers) and reduced apple juice concentrate prices and volumes impacting on Profruit's profitability.

- Minor increases in head office costs reflecting a part year of listing costs.

Overview of EBITDA for FY2015F

FY2015F EBITDA is forecast to increase from $38.8 million to $41.2 million, reflecting:

- Approximately $1.5 million in additional EBITDA from the Horticultural division, reflecting:

  - increased apple volumes in the Horticultural division. Apple volumes are expected to increase for two reasons:

    - significant volumes of replanted orchard are coming in to mature levels of production; and

    - orchard yields are assumed to be representative of an 'average' year (as measured over the last 5 years). On balance this provides for a small amount of climatic damage, but less than that experienced in FY2014F;

- Approximately $0.8 million in additional EBITDA from the Storage & Logistics division, reflecting:

  - a significant profit uplift from the bulk liquid storage business, Liqueo, following additional storage requirements at Timaru for an existing customer; and

  - increased profit from the coldstore businesses due to anticipated electricity efficiencies following an investment to upgrade the engine room in the largest coldstore at Timaru; offsetting

- start-up losses from the Auckland coldstore expected to open in late FY2015F.

- A minor increase in EBITDA from the Food Ingredients division, reflecting:

    - Increases in Profruit profits as apple juice concentrate prices increase offsetting a minor reduction in profitability from Meateor as Meateor returns to sustainable sale volumes.

A further increase in Head Office costs reflecting a full year of incremental costs of listing.

7.2.5 EBITDA

Because EBITDA is not defined by NZ GAAP, IFRS, or any other body of accounting standards, our calculation of EBITDA may differ from similarly titled measures presented by other companies. This measure is intended to supplement the NZ GAAP measures presented in our financial information and not to be a substitute for those measures.

EBITDA is earnings before interest, income tax, depreciation and amortisation.

EBITDA is a non-GAAP profit measure that has been reported in historical financial statements (in the segment analysis) and will be reported in the financial information for the Group going forward. EBITDA is therefore shown in the financial information presented in the PFI. We use EBITDA to evaluate our operating performance without the impact of a range of non-cash items or the effects of our capital structure and tax position.

EBITDA should not be considered in isolation or as a substitute for NZ GAAP measures, such as Net Profit and cash flow measures.

Reconciliation of Net Profit to Pro forma EBITDA

$000	FY2012	FY2013	FY2014F	FY2015F
Net Profit as Reported in Historical Financial Statements and PFI	**13,624**	**20,438**	**15,925**	**20,794**
Deduct:				
Profit (loss) for the year of demerged George H Investments Ltd Group	(3,439)	495	(270)	-
Profit for the year of Cashreal Properties Limited (liquidated in 2014)	(3,347)	(1,374)	-	-
Net Profit from Continuing Operations	**6,838**	**19,559**	**15,655**	**20,794**
Add Back:				
Offer costs	-	-	2,875	-
Depreciation & Amortisation	8,035	8,839	9,323	9,630
Interest	8,195	7,214	4,156	3,287
Income Tax Expense	4,342	7,144	6,802	7,537
Pro forma EBITDA	**27,410**	**42,756**	**38,811**	**41,248**

7.2.6 Average Prospective Net Debt

Average Prospective Net Debt is used to calculate indicative enterprise value. Average Prospective Net Debt is the value of current and non-current borrowings less cash and cash equivalents, using an average measure of working capital in order to smooth fluctuations in working capital that occur throughout the year.

Average Prospective Net Debt is projected to be $44.1 million during 2014, being the aggregate of:

- an estimated $30.0 million of term debt borrowings; and

- $14.1 million, which is the average of the net working capital facility balances as at 30 June 2014 and 31 December 2014. This is broadly consistent with our forecast average monthly closing net working capital facility balance for FY2014F.

The table below sets out the calculation of Average Prospective Net Debt in FY2014F.

$000	FY2014F
Net working capital facility (30 June 2014)	23,576
Net working capital facility (31 December 2014)	4,716
Average net working capital facility	**14,146**
Term debt borrowings (including any current portion of term debt) (31 December 2014)	30,000
Average Prospective Net Debt	**44,146**

7.3 PROSPECTIVE FINANCIAL INFORMATION

This section contains:

- consolidated prospective financial information for the Group, as required by clause 11(1)(c) of Schedule 1 of the Securities Regulations, which includes: prospective consolidated statements of comprehensive income, prospective consolidated statements of changes in equity, prospective consolidated statements of financial position and prospective consolidated statements of cash flows;

- the basis of preparation of the prospective financial statements, including the significant accounting policies applied;

- a description of the Board’s best estimate general and specific assumptions that underpin the PFI contained in this Prospectus; and

- an analysis of the sensitivity of PFI to changes in a number of key assumptions.

7.3.1 Basis of Preparation

These prospective financial statements have been prepared in accordance with FRS-42: Prospective Financial Statements, subject to the Securities Regulations.

During February 2014, Scales shareholders approved a proposal for the demerger of the Investments operating division from the Group. This demerger was effective on 30 April 2014. The prospective consolidated statement of comprehensive income for the year ending 31 December 2014 includes the results of the Investments division for the four months ended 30 April 2014 under the heading “Discontinued operations” and the prospective consolidated statement of changes in equity for the year ending 31 December 2014 includes the movements relating to the demerger of that division.

The PFI is based on the Board's assessment of events and conditions existing at the date of this Prospectus and the assumptions set out on pages 72 to 84 and accounting policies as discussed below. The directors believe that the PFI has been prepared with due care and attention, and consider the best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus. However, actual results are likely to vary from the information presented as anticipated results may not occur as expected, and the variations may be material. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI will be achieved and investors are cautioned not to place undue reliance on the PFI.

The following PFI has been prepared for the purpose of the Offer and may not be suitable for any other purpose.

The PFI is prepared entirely on a forecast basis. FY2014F has, however, been checked against operating metrics for the four months to 30 April 2014.

This PFI, including the assumptions underlying it, has been prepared by management and approved by the Board. The Board approved the PFI on 19 June 2014 for use in this Prospectus.

PFI, by its nature, involves risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to, those set out in *Section 6: What are my Risks?*

There is no present intention to update the PFI or to publish PFI in the future, other than as required by financial reporting standards. We will present a comparison of this PFI with actual financial results when reported in accordance with NZ GAAP and Regulation 44 of the Securities Regulations.

7.3.2 Prospective Consolidated Financial Statements

Prospective Consolidated Statements of Comprehensive Income

$000	FY2014F	FY2015F
Continuing operations:		
Revenue	253,927	260,393
Cost of Sales	(176,671)	(179,597)
Gross Profit	77,256	80,796
Share of profits of associate companies and joint ventures accounted for using the equity method	1,038	1,412
Administration and operating expenses	(39,483)	(40,960)
Offer costs	(2,875)	-
EBITDA	**35,936**	**41,248**
Depreciation & Amortisation	(9,323)	(9,630)
EBIT	**26,613**	**31,618**
Interest	(4,156)	(3,287)
Profit Before Income Tax from Continuing Operations	**22,457**	**28,331**
Income Tax Expense	(6,802)	(7,537)
Net Profit from Continuing Operations	**15,655**	**20,794**
Discontinued operations:		
Net profit for the year from discontinued operations	270	-
Net Profit	**15,925**	**20,794**
OTHER COMPREHENSIVE INCOME		
Items relating to discontinued operations:		
Gain on shares in listed company	1,206	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**1,206**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**17,131**	**20,794**

Prospective Consolidated Statements of Changes in Equity

$000	Share Capital	Properties Revaluation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 January 2014	61,957	27,408	423	85,525	175,313
Profit for the year - continuing operations	-	-	-	15,655	15,655
Profit for the year - discontinued operations	-	-	-	270	270
Other comprehensive income for the year - discontinued operations	-	-	-	1,206	1,206
Total comprehensive income for the year	-	-	-	17,131	17,131
Dividends paid	-	-	-	(13,681)	(13,681)
Cash distribution	-	-	-	(8,563)	(8,563)
Demerger of the Investments division	-	(319)	-	(53,100)	(53,419)
Issue of share capital	30,000	-	-	-	30,000
Share issue costs	(1,125)	-	-	-	(1,125)
Balance at 31 December 2014	**90,832**	**27,089**	**423**	**27,312**	**145,656**
Profit for the year	-	-	-	20,794	20,794
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	20,794	20,794
Dividends paid	-	-	-	(12,970)	(12,970)
Balance at 31 December 2015	**90,832**	**27,089**	**423**	**35,136**	**153,480**

Prospective Consolidated Statements of Financial Position

$000	FY2014F	FY2015F
Equity		
Share capital	90,832	90,832
Properties revaluation reserve	27,089	27,089
Hedging reserve	423	423
Retained earnings	27,312	35,136
Total Equity	**145,656**	**153,480**
Represented by:		
Current Assets		
Cash and bank balances	-	2,102
Trade and other receivables	12,998	13,334
Other financial assets	1,904	1,749
Inventories	11,134	11,041
Other current assets	2,132	2,132
Total Current Assets	**28,168**	**30,358**
Non-Current Assets		
Investments accounted for using the equity method	5,052	5,052
Other financial assets	3,051	3,051
Property, plant and equipment	145,210	145,562
Biological assets	28,465	29,800
Goodwill	5,319	5,319
Other intangible assets	1,251	917
Total Non-Current Assets	**188,348**	**189,701**
Total Assets	**216,516**	**220,059**
Current Liabilities		
Trade and other payables	(14,925)	(15,115)
Short-term borrowings and bank overdraft	(4,716)	-
Current tax liabilities	(2,267)	(2,512)
Other financial liabilities	(599)	(599)
Total Current Liabilities	**(22,507)**	**(18,226)**
Non-Current Liabilities		
Borrowings	(30,000)	(30,000)
Deferred tax liabilities	(16,688)	(16,688)
Other financial liabilities	(1,665)	(1,665)
Total Non-Current Liabilities	**(48,353)**	**(48,353)**
Total Liabilities	**(70,860)**	**(66,579)**
Net Assets	**145,656**	**153,480**

Prospective Consolidated Statements of Cash Flows

$000	FY2014F	FY2015F
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	253,407	260,056
Dividends received	1,038	1,412
	254,445	261,468
Cash was disbursed to:		
Payments to suppliers and employees	(219,641)	(220,609)
Interest paid	(4,156)	(3,287)
Income tax paid	(6,104)	(7,292)
	(229,901)	(231,188)
NET CASH GENERATED BY OPERATING ACTIVITIES	**24,544**	**30,280**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Other advances repaid	155	155
	155	155
Cash was applied to:		
Investment in biological assets	(1,494)	(1,000)
Purchase of other intangible assets	(30)	(55)
Purchase of property, plant and equipment	(8,970)	(9,592)
Cash at bank at the beginning of the year transferred with demerged group	(313)	-
	(10,807)	(10,647)
NET CASH (USED IN) INVESTING ACTIVITIES	**(10,652)**	**(10,492)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from borrowings	2,500	-
Shares issued net of share issue costs	29,175	-
	31,675	-
Cash was applied to:		
Borrowings repaid	(30,000)	(2,500)
Dividends paid	(13,681)	(12,970)
Cash distribution	(8,563)	-
	(52,244)	(15,470)
NET CASH (USED IN) FINANCING ACTIVITIES	**(20,569)**	**(15,470)**
NET (DECREASE) INCREASE IN NET CASH	**(6,677)**	**4,318**
Cash and cash equivalents at the beginning of the year	4,461	(2,216)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**(2,216)**	**2,102**
Represented by:		
Cash and bank balances	-	2,102
Bank overdraft	(2,216)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**(2,216)**	**2,102**

7.3.3 Overview of Prospective Financial Information by Segment

Scales comprises the following operating divisions that will continue following the demerger:

- ***Horticulture:*** includes Mr Apple and a 50% interest in Fern Ridge Produce;
- ***Storage & Logistics:*** includes Polarcold, Whakatu Coldstores, Liqueo and Scales Logistics;
- ***Food Ingredients:*** includes Meateor and a 50% interest in Profruit; and
- ***Other:*** includes Head Office and the captive insurer Selacs Insurance.

As mentioned above, the Investments operating division was demerged from the Scales Group on 30 April 2014. The Investments division oversaw various property and shareholding investments.

Prospective Segmental Reporting

$000	Horticulture	Storage & Logistics	Food Ingredients	Other	Intercompany Eliminations	Total
31 DECEMBER 2014						
Revenue from External Customers	154,967	63,455	35,489	16	-	253,927
Inter-segment Revenue	-	26,772	-	3,109	(29,881)	-
Total Segment Revenue	154,967	90,227	35,489	3,125	(29,881)	253,927
Total Segment Cost of Sales	(111,501)	(61,664)	(30,122)	-	26,616	(176,671)
Gross Profit	**43,466**	**28,563**	**5,367**	**3,125**	**(3,265)**	**77,256**
Share of profits of associate company and joint venture accounted for using the equity method	310	-	728	-	-	1,038
Administration and operating expenses	(21,264)	(14,588)	(2,186)	(4,710)	3,265	(39,483)
Offer costs	-	-	-	(2,875)	-	(2,875)
EBITDA	**22,512**	**13,975**	**3,909**	**(4,460)**	**-**	**35,936**
Depreciation & Amortisation	(3,979)	(4,673)	(599)	(72)	-	(9,323)
EBIT	**18,533**	**9,302**	**3,310**	**(4,532)**	**-**	**26,613**
Interest	(861)	(56)	-	(3,239)	-	(4,156)
Profit Before Income Tax	**17,672**	**9,246**	**3,310**	**(7,771)**	**-**	**22,457**
Income Tax Expense	(4,861)	(2,589)	(723)	1,371	-	(6,802)
Net Profit from Continuing Operations	**12,811**	**6,657**	**2,587**	**(6,400)**	**-**	**15,655**
Current assets	6,147	8,117	11,117	3,134	(347)	28,168
Non-current assets	99,690	79,040	7,124	2,494	-	188,348
Current liabilities	(8,079)	(5,130)	(4,013)	(5,633)	347	(22,507)
Non-current liabilities	(8,744)	(9,261)	49	(30,397)	-	(48,353)
Net Assets	**89,014**	**72,766**	**14,277**	**(30,402)**	**-**	**145,656**
31 DECEMBER 2015						
Revenue from External Customers	158,881	66,702	34,794	16	-	260,393
Inter-segment Revenue	-	26,672	-	3,109	(29,781)	-
Total Segment Revenue	158,881	93,374	34,794	3,125	(29,781)	260,393
Total Segment Cost of Sales	(113,666)	(62,890)	(29,558)	-	26,517	(179,597)
Gross Profit	**45,215**	**30,484**	**5,236**	**3,125**	**(3,264)**	**80,796**
Share of profits of associate company and joint venture accounted for using the equity method	342	-	1,070	-	-	1,412
Administration and operating expenses	(21,508)	(15,674)	(2,186)	(4,856)	3,264	(40,960)
EBITDA	**24,049**	**14,810**	**4,120**	**(1,731)**	**-**	**41,248**
Depreciation & Amortisation	(3,951)	(5,008)	(599)	(72)	-	(9,630)
EBIT	**20,098**	**9,802**	**3,521**	**(1,803)**	**-**	**31,618**
Interest	(861)	(56)	-	(2,370)	-	(3,287)
Profit Before Income Tax	**19,237**	**9,746**	**3,521**	**(4,173)**	**-**	**28,331**
Income Tax Expense	(5,290)	(2,729)	(686)	1,168	-	(7,537)
Net Profit	**13,947**	**7,017**	**2,835**	**(3,005)**	**-**	**20,794**
Current assets	6,097	8,300	11,072	5,236	(347)	30,358
Non-current assets	98,875	81,502	6,822	2,502	-	189,701
Current liabilities	(8,313)	(5,345)	(3,932)	(984)	347	(18,226)
Non-current liabilities	(8,744)	(9,261)	49	(30,397)	-	(48,353)
Net Assets	**87,915**	**75,196**	**14,011**	**(23,643)**	**-**	**153,480**

7.3.4 Accounting Policies

The significant accounting policies applied to the preparation of the PFI are set out in the audited consolidated financial statements for FY2013 in *Section 7.5: Audited Financial Statements for the year ended 31 December 2013*.

The 2014 financial statements will also include the following accounting policy in respect of 'Share-based payment arrangements':

> *Share-based payment arrangements*
>
> Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision on the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.
>
> For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

No other changes to financial reporting standards under NZ GAAP are expected to materially affect us during FY2014F and FY2015F. However, any further changes to NZ GAAP could necessitate changes in the accounting policies currently adopted and any new or amended financial reporting standards, or interpretations, may affect the actual financial results or financial position.

7.3.5 General Assumptions

The PFI in this section is based on various best estimate assumptions. The general assumptions are summarised below and should be read in conjunction with the risk factors set out in *Section 6: What are my Risks?*

- ***Economic environment:*** there will be no material changes in the economic outlook for the New Zealand and international markets in which we sell products and services beyond normal market movements in prices.

- ***Competitive, legislative and regulatory environment:*** there will be no material change in our competitive, legislative or regulatory environment, including in relation to the RSE Scheme.

- ***Biosecurity:*** there will not be any pest or disease incursion or other biosecurity events or any other adverse publicity about us or New Zealand food products, whether or not legitimate.

- ***Operating environment:*** there will be no material costs incurred through either industrial or contractual disputes. There will be no delays in commissioning our new Auckland coldstore.

- ***Natural environment:*** there will be no material disruption or damage to assets from earthquakes, flooding, fires or other natural disasters or hazards that may disrupt our operations. Ordinary frosts and hail events in Hawke's Bay are expected, especially during the winter season, and are generally unproblematic. Such events during the spring and summer seasons can cause damage and an average level of damage is assumed.

- ***Key customers and suppliers:*** there will be no material change in existing contractual, business or operational relationships with our key customers or suppliers. Should any suppliers or customers be lost it is assumed they could be replaced on materially similar terms.

- ***Business acquisitions or disposals:*** there will be no material business acquisitions or disposals by us, other than the demerger (see *Section 7.3.6: Specific Assumptions, Head Office and Selacs Insurance*).

- ***New Zealand and international tax laws:*** there will be no material change in tax laws applicable to us.

- ***No Claims or Litigation:*** there will be no material claims, proceedings or litigation whether we are the party making the claim or defending such claim.

- ***Financial Reporting Standards:*** there will be no change in financial reporting standards or accounting interpretations which would have a material effect on us.

7.3.6 Specific Assumptions

Set out as follows are specific best estimate assumptions that have been adopted in preparing the PFI.

Horticulture

Key Operational Metrics

		FY2012	FY2013	FY2014F	FY2015F
Volumes exported					
Mr Apple owned and leased orchards	TCE 000s	2,144	2,833	2,569	2,717
External growers	TCE 000s	1,500	1,340	1,318	1,287
Total	**TCE 000s**	**3,645**	**4,173**	**3,887**	**4,004**
Weighted average sale price	NZD/TCE	24.4	28.7	27.2	27.2
Orchard					
Total planted orchard (at time of harvest)	ha.	852	1,028	1,037	1,049
Fully mature equivalent planted orchard[19]	ha.	716	858	871	898
Export yield/planted orchard	TCEs/ha.	2,516	2,755	2,478	2,590
Export yield/mature equivalent planted orchard	TCEs/ha.	2,996	3,300	2,948	3,026

Profitability

$000	FY2012	FY2013	FY2014F	FY2015F
Revenue	**134,227**	**174,171**	**154,967**	**158,881**
Sea freight & transport costs	(26,665)	(29,489)	(25,070)	(25,828)
Post-harvest processing	(18,470)	(22,382)	(21,414)	(21,769)
Payments to external growers	(31,364)	(35,092)	(31,950)	(31,071)
Orchard costs	(19,166)	(25,987)	(22,864)	(24,451)
Other direct costs	(8,912)	(14,441)	(10,203)	(10,547)
Cost of Sales	**(104,577)**	**(127,391)**	**(111,501)**	**(113,666)**
Gross Profit	**29,650**	**46,780**	**43,466**	**45,215**
Gross Profit Margin	22%	27%	28%	28%
Administration, operating expenses, and other gains and losses	(19,312)	(21,743)	(21,264)	(21,508)
EBITDA (excluding Scales' share of Fern Ridge Produce)	**10,338**	**25,037**	**22,202**	**23,707**
Share of Fern Ridge Produce Net Profit	-	490	310	342
Horticulture EBITDA	**10,338**	**25,527**	**22,512**	**24,049**
Depreciation & amortisation	(3,418)	(3,815)	(3,979)	(3,951)
Horticulture EBIT	**6,920**	**21,712**	**18,533**	**20,098**
Capital employed	87,824	93,429	97,758	96,659
Return on capital employed	8%	23%	19%	21%

[19] The fully mature equivalent planted orchard is an operating metric that gauges the effective maturity of the orchard at the time of harvest. It reports the comparable area of fully mature orchard that would theoretically produce an equivalent volume of apples. If no redevelopment were to take place for 6 years, the actual planted and mature equivalent orchard would be identical or nearly identical.

Revenue
Horticultural revenues are principally driven by the quantity of apples sold on export markets and the price, in NZD per export carton, achieved for those apples. Some additional revenues are earned from other activities.

Apple volumes
Following a very strong growing season in 2013, total export volumes will decrease by 6.9% from 4.2 million TCEs in FY2013 to 3.9 million TCEs in FY2014F. Between FY2014F and FY2015F total volumes will increase, driven by increased volumes from our own orchards.

Mr Apple volumes are a function of:

- ***Total planted orchard:*** the total planted orchard increasing from 1,028 ha in FY2013 to 1,037 ha in FY2014F and 1,049 ha in FY2015F. These increases mostly reflect planting of small areas previously planted in stonefruit, pears and grapes in the two large leases entered into during 2012.

- ***Export yields per ha:*** export yields per ha decreasing from a high of 2,755 TCEs per ha in FY2013 to 2,478 TCEs per ha in FY2014F. This decrease is largely due to a localised hail event in December 2013 that damaged apples on the trees. Export yields will increase by 4.5% to 2,590 TCEs per ha in FY2015F. This increase reflects the maturing of recently developed orchard and achieving 'average' yields for the season. We note that 'average' yields make some provision for hail or climatic damage, although assume less damage than that caused by the hail event in December 2013.

External grower FY2014F volumes are marginally lower than FY2013. A further marginal decrease in FY2015F provides for some Nelson growers potentially exiting the industry.

Apple prices
The weighted average price per TCE (on a FOB basis) achieved for all apples will decrease from $28.7 in FY2013 to $27.2 in FY2014F (a 5.2% decrease). Weighted average prices remain static for FY2015F. The weighted average price of apples is a function of:

- ***Individual prices for each variety in each key market:*** for most markets and varieties, prices will reduce for FY2014F so that not all of the uplift achieved in FY2013 is repeated. For FY2015F, prices will broadly remain at the same level as FY2014F, with the exception of three small reductions in the prices for Braeburn, Royal Gala and Fuji apples in their key trading markets.

NZD/TCE	**FY2012**	**FY2013**	**FY2014F**	**FY2015F**
Premium varieties				
NZ Queen	34.1	37.9	35.6	35.6
Pink Lady	26.1	31.6	28.8	28.8
Red Sports (Fuji and Royal Gala)	25.9	29.3	29.2	28.6
Other	34.8	38.0	34.9	34.8
Weighted average	**27.8**	**31.7**	**30.5**	**30.4**
Traditional varieties				
Braeburn	21.8	28.1	24.8	24.4
Royal Gala	22.6	26.4	25.7	25.0
Other	23.5	25.6	25.1	24.4
Weighted average	**22.5**	**26.9**	**25.1**	**24.6**
Total weighted average price	**24.4**	**28.7**	**27.2**	**27.2**

- ***Foreign exchange rates:*** the table below sets out weighted average exchange rates for FY2012 through FY2015F for all major currencies transacted (USD, EUR, GBP, and CAD). These rates reflect a blend of actual rates contracted under foreign exchange instruments and spot rates as at 26 March 2014 for unhedged exposure. Currencies are broadly unchanged across FY2014F and FY2015F from FY2013 levels based on significant foreign exchange instruments in place covering approximately 73% and 64% of all FY2014F and FY2015F own fruit sales respectively.

Contracted Rates

Average Exchange Rates	FY2014F	FY2015F
NZD:EUR	0.59	0.58
NZD:USD	0.78	0.77
NZD:GBP	0.49	0.50
NZD:CAD	0.81	0.79

Cover in Place

Amount (000s)	FY2014F	FY2015F
NZD:EUR	14,200	12,750
NZD:USD	12,400	10,500
NZD:GBP	5.050	4,550
NZD:CAD	550	350

Weighted Average Rates Assumed

Average Exchange Rates	FY2012	FY2013	FY2014F	FY2015F
NZD:EUR	0.64	0.61	0.60	0.60
NZD:USD	0.80	0.81	0.83	0.83
NZD:GBP	0.51	0.52	0.50	0.50
NZD:CAD	0.80	0.83	0.90	0.88

Other Revenues

In addition to core export sale revenues (noted on a FOB basis above), reported revenues also include:

- Sea freight, other selling costs and cost recoveries. This revenue item is a recovery of sea freight, other selling costs, or other costs incurred on behalf of external growers that are not incorporated in the FOB prices stated above. This revenue item is driven by movements in volumes and the appropriate costs discussed in further detail in the section below. This cost is expected to decrease for FY2014F due to lower volumes and reduced sea freight costs (on a per TCE basis) and remain consistent for FY2015F.

- Local and process revenue. Small, damaged, or non-export grade apples are sold either for processing or on the local market. This represents a small portion of revenues and is assumed to remain at approximately 2% of total FOB export receipts for FY2014F and FY2015F.

- Other service revenues. Mr Apple operates a number of ancillary divisions related to its core business. These divisions provide a wide range of services including bin hireage, domestic transport, and accommodation rental for seasonal employees amongst others. Revenues are charged to recover matching costs and overheads associated with providing these services. In aggregate approximately $5 million in external revenues are charged annually. This revenue is expected to remain consistent for FY2014F and FY2015F.

- Packhouse and coolstore revenues from external Hawke's Bay growers. Mr Apple charges market rates for packhouse and coolstore services provided to external Hawke's Bay growers. No material changes to prices per TCE are forecast, with only minor movements in these revenues being driven by immaterial changes in overall Hawke's Bay external fruit volumes.

Direct Costs

Total direct costs will decrease from $127.4 million in FY2013 to $111.5 million in FY2014F (a 12.5% reduction). Costs will increase in FY2015F to $113.7 million. There are four core components to direct costs:

- ***Sea freight and transport costs:*** on a per TCE basis, sea freight and transport costs reduce by almost 9%. These savings are due to higher proportions of fruit being sold in Asian and Middle Eastern markets (accessing lower shipping rates) and sea freight competition improving options and lowering cost. Sea freight costs account for more than 90% of total transport costs. When this per TCE saving is applied to the lower volumes forecast for FY2014F, the aggregate cost reduces by 15.0% from FY2013 to FY2014F. Sea freight and transport costs per TCE remain static to FY2015F. Applied to the slightly higher volume, costs increase by 3.0% from FY2014F to FY2015F.

- ***Post-harvest processing (costs of operating the packhouses and coolstores):*** these costs will remain broadly equivalent on a per TCE basis between FY2013, FY2014F and FY2015F. Due to lower volumes being handled, the aggregate direct cost reduces by $1.0 million from FY2013 to FY2014F and increases by $0.4 million to FY2015F.

- ***Payments to external growers:*** growers receive the balance of the sale price less sea freight costs, pooled costs (which include various costs involved in getting apples to market such as insurance, compliance, and value-added packhouse charges – pooled costs are approximately $1.50/TCE) and sales commission. FY2014F reduced sale prices represent the majority of the decrease between FY2013 and FY2014F. The total cost decreases again slightly in FY2015F due to lower assumed volumes from Nelson growers.

- ***Orchard costs:*** these costs will decrease from $26.0 million in FY2013 to $22.9 million in FY2014F (a decrease of 12%). This decrease is partially due to lower volumes of fruit, but also reflects a reduced spend on pruning and thinning following high pruning and thinning costs in FY2013. This cost will increase to $24.5 million in FY2015F (an increase of 7%). The subsequent increase reflects higher volumes of Mr Apple owned and leased orchard grown-fruit, but also a return to five year average thinning and pruning costs (as measured on a per ha basis).

Fern Ridge Produce
Fern Ridge Produce total profits reduce by 37% between FY2013 and FY2014F. This reduction is due to lower volumes of product being handled. An approximate 10% increase in products handled for FY2015F increases profit by 10% from the FY2014F result. The 50% share of Fern Ridge Produce's result represents less than 1.5% of Horticulture division EBITDA throughout the PFI period.

Fern Ridge Produce's Net Profit is assumed to be remitted in full to its shareholders as a cash distribution.

Administration, Operating Expenses, and Other Gains and Losses
FY2012 and FY2013 administration, operating expenses, and other gains and losses, included a number of year-end IFRS and other adjustments amounting to $3.1 million in FY2012 and $1.9 million in FY2013. Due to the nature of these items, no equivalent adjustments are forecast for FY2014F or FY2015F.

An underlying increase in administration and operating expenses between FY2013 and FY2014F is largely due to an additional coolstore lease entered into at the beginning of FY2014F and additional sales and marketing overheads.

Storage & Logistics

Key Operational Metrics

Polarcold and Whakatu Coldstores		FY2012	FY2013	FY2014F	FY2015F
Available refrigerated coldstore space (at end of year)					
Owned	m3 000s	320.7	320.7	320.7	320.7
Leased	m3 000s	236.2	236.2	243.1	338.8
Managed	m3 000s	42.8	42.8	42.8	42.8
Total	**m3 000s**	**599.7**	**599.7**	**606.6**	**702.3**
Average annual utilisation of coldstore space	(%)	72%	71%	68%	65%
Liqueo					
Installed capacity of all tanks	MT 000s	20,060	20,000	22,200	22,200
Average capacity under fixed lease	MT 000s	9,879	9,780	11,259	12,530

Profitability

$000	FY2012	FY2013	FY2014F	FY2015F
Storage & Logistics - Total Revenue	77,243	91,662	90,227	93,374
Storage & Logistics - Total Cost of Sales	(49,479)	(62,783)	(61,664)	(62,890)
Gross Profit	**27,764**	**28,879**	**28,563**	**30,484**
Gross Profit Margin	36%	32%	32%	33%
Administration, operating expenses, and other gains and losses	(13,736)	(15,016)	(14,588)	(15,674)
EBITDA				
All Coldstores	11,785	11,858	11,616	11,741
Liqueo	1,451	1,251	1,364	1,986
Scales Logistics	792	754	995	1,083
Total Storage & Logistics EBITDA	**14,028**	**13,863**	**13,975**	**14,810**
Depreciation & Amortisation				
All Coldstores	(3,244)	(3,541)	(3,882)	(4,151)
Liqueo	(656)	(673)	(703)	(768)
Scales Logistics	(9)	(99)	(88)	(89)
Total Depreciation & Amortisation	**(3,909)**	**(4,313)**	**(4,673)**	**(5,008)**
EBIT				
All Coldstores	8,541	8,317	7,734	7,590
Liqueo	795	578	661	1,218
Scales Logistics	783	655	907	994
Total Storage & Logistics EBIT	**10,119**	**9,550**	**9,302**	**9,802**
Capital employed	75,872	77,617	82,027	84,457
Return on capital employed	13%	12%	11%	12%

Polarcold and Whakatu Coldstores

Coldstore revenues are principally driven by the total refrigerated storage space, the average utilisation of that space, and the amount charged for storage.

Total refrigerated storage space

The total refrigerated storage space is unchanged between FY2013 and FY2014F, and increases by 16% in FY2015F following the completion of the Auckland coldstore in late 2015.

Leased compared to owned space

Polarcold and Whakatu Coldstores currently own approximately 57% of their refrigerated storage space, with the remaining 43% leased. These percentages change to 49% and 51% respectively in FY2015F.

On a cubic metre basis, total lease charges are forecast to remain consistent with historical levels. However, due to the Auckland coldstore, total lease costs increase in FY2015F.

Average coldstore utilisation
Utilisation measures the average occupancy of the space available for storage within each coldstore facility over a year. The utilisation of individual coldstores will approach 100% during peak production months and reduce over the New Zealand winter.

Across all facilities and over the entire year, utilisation decreases from 71% in FY2013 to 68% in FY2014F due to lower volumes of meat and more rapid turnaround of product. With the Auckland coldstore commencing operations in FY2015F, and with no product in store on opening, utilisation for FY2015F is lower than FY2014F. Over time, the Auckland coldstore is expected to achieve utilisation rates consistent with the Group average.

Storage charges
The amount charged for storage and handling (load in and load out charges) is expected to remain reasonably static over the forecast period. Inflationary increases in storage charges will be negotiated on the renewal of key contracts.

Coldstore EBITDA
Total EBITDA across all coldstores decreases slightly (approximately $0.2 million) between FY2013 and FY2014F. Lower volumes are expected following particularly high volumes in FY2012 and FY2013. Total EBITDA increases slightly (approximately $0.1 million) in FY2015F. This increase is largely driven by energy savings following the engine room upgrade at Timaru (slightly more than $0.3 million) offsetting start-up losses from the Auckland coldstore (slightly less than $0.3 million).

Note that losses in the first year of trading for the Auckland coldstore are largely due to initial set-up costs, and the time it will take to reach normal levels of static storage, which is expected to be late in the 2015 calendar year or early in the 2016 calendar year.

Liqueo
Revenues
Total revenues will decrease slightly from FY2013 to FY2014F. This decrease reflects a reduction in drumming service revenues and sale of proprietary tallow (Liqueo occasionally buys small volumes of waste tallow to refine and sell on the open market), partially offset by higher storage revenues. Revenues increase in FY2015F mostly due to additional storage revenues from an existing customer to service anticipated increased storage requirements.

EBITDA
Despite a reduction in revenues between FY2013 and FY2014F, EBITDA increases due to higher levels of storage revenue and lower outside storage costs. EBITDA increases again in FY2015F once again due to the increased storage volumes at Timaru.

Scales Logistics
Revenues
Scales Logistics revenue will increase by 3.8% in FY2014F and 1.7% in FY2015F. The increased revenue is mostly due to increased trade from Balance Cargo and non-Scales sea freight customers.

EBITDA
Scales Logistics EBITDA increases by $0.2 million from $0.8 million in FY2013 to $1.0 million in FY2014F. The increase is mostly due to the increased trade from Balance Cargo which sees the operation improve from loss making (in FY2013) to near break-even profitability in FY2014F. EBITDA will increase slightly (to $1.1 million) in FY2015F following further incremental uplift in the performance of Balance Cargo.

Administration and Operating Expenses
Total administration and operating expenses will remain in line with previous years for FY2014F, decreasing slightly due to small improvements within the coldstore operations. Total costs increase by $1.1 million in FY2015F due to administration and operating costs associated with the commencement of trading for the Auckland coldstore. The Auckland coldstore administration and operating expenses represent approximately 40% of a full year of costs.

Food Ingredients

Key Operational Metrics

		FY2012	FY2013	FY2014F	FY2015F
Meateor					
Sales volumes	Tonnes	16,161	15,345	15,843	15,080

Profitability

$000	FY2012	FY2013	FY2014F	FY2015F
Meateor Revenue	33,601	33,113	35,489	34,794
Meateor Cost of Sales	(27,257)	(27,178)	(30,122)	(29,558)
Gross Profit	**6,344**	**5,935**	**5,367**	**5,236**
Gross Profit Margin	19%	18%	15%	15%
Administration, operating expenses, and other gains and losses	(2,343)	(2,305)	(2,186)	(2,186)
EBITDA (excluding Scales' share of Profruit)	**4,001**	**3,630**	**3,181**	**3,050**
Share of Profruit Net Profit	1,467	1,077	728	1,070
Food Ingredients EBITDA	**5,468**	**4,707**	**3,909**	**4,120**
Depreciation & Amortisation	(609)	(643)	(599)	(599)
Food Ingredients EBIT	**4,859**	**4,064**	**3,310**	**3,521**
Capital employed	15,961	13,799	14,228	13,962
Return on capital employed	30%	29%	23%	25%

Meateor

Total volumes increase from 15,345 tonnes in FY2013 to 15,843 tonnes in FY2014F (increase of 3%). This increase is due to the sale of surplus inventories carried at the end of FY2013. Volumes return to a sustainable level of 15,080 tonnes in FY2015F (5% reduction).

The cost of raw materials increases significantly between FY2013 and FY2014F driven by reduced availability of supply. Whilst some of the increased cost is passed on to customers through increased selling prices, overall gross margins contract in FY2014F and remain consistent in FY2015F.

Overall, EBITDA decreases between FY2013 and FY2014F by 12%, and a further 4% to FY2015F as volumes reduce to sustainable levels.

Profruit

Ongoing weakness in apple juice concentrate prices, coupled with slightly reduced volumes from Mr Apple, reduces Profruit's profits by 32% from FY2013 to FY2014F.

During FY2015F an improvement in apple juice concentrate prices returns Profruit to FY2013 levels of profit (a 47% increase on the FY2014F result). FY2013 profits were lower than that achieved in both FY2012 and FY2011.

Profruit's Net Profit is assumed to be remitted in full to its shareholders as a cash distribution.

Administration and Operating Expenses

Total administration and operating expenses are in line with previous years.

Head Office and Selacs Insurance

Administration and Operating Expenses

Administration and operating expenses for FY2014F are broadly consistent with those incurred in FY2013, increasing slightly to reflect a part year of incremental costs associated with running a listed company (including NZX listing fees, incremental costs of preparing and distributing annual and interim reports, and incremental directors' fees).

A subsequent increase in FY2015F reflects a full year of incremental listing costs.

Offer Costs
Advisory and other fees associated with the Offer, which will be paid by the Company, are expected to amount to $2.9 million and are recorded as an expense prior to determining Net Profit for FY2014F. Brokerage payable on new equity issued (approximately $1.1 million) is deducted from proceeds raised and is not recorded in the Prospective Consolidated Statement of Comprehensive Income.

Depreciation and Amortisation
Historical rates of depreciation will apply to the asset base adjusted for capital expenditure in FY2014F and FY2015F. With capital expenditure exceeding depreciation and amortisation in both years, the total expense increases each year.

Share-based Payments to Employees
The cost of any share-based payments to employees are not material and no costs have been included in the PFI.

Capital Expenditure

$'000	FY2012	FY2013	FY2014F	FY2015F
Operational capital expenditure				
Horticulture	3,285	5,507	2,026	1,800
Storage & Logistics	1,468	2,242	1,840	1,840
Food Ingredients	329	66	297	297
Other	27	92	55	80
Total operational capital expenditure	**5,109**	**7,907**	**4,218**	**4,017**
Growth capital expenditure				
Horticulture	3,819	4,068	1,789	1,000
Storage & Logistics	2,116	1,032	4,487	5,631
Food Ingredients	3,500	-	-	-
Total growth capital expenditure	**9,435**	**5,100**	**6,276**	**6,631**
Total capital expenditure	**14,544**	**13,007**	**10,494**	**10,648**

Operational capital expenditure in the Horticulture division for FY2013 is higher than assessed long-term average requirements. In FY2013, operational capital expenditure was increased by a significant investment in orchard bins (almost $3.2 million, compared with an average expenditure in the previous 6 years of $0.7 million). The large bin expenditure has removed the need for bin spending in FY2014F and reduced bin expenditure to $0.5 million in FY2015F. Annual long-run bin capital expenditure is assessed at $0.8 million.

Total capital expenditure relates to additions spread across property, plant and equipment, biological assets and intangible assets.

Total operational capital expenditure (ordinary asset replacement and maintenance), in the normal course of business beyond the PFI period, in respect of the existing asset base would be expected to be approximately $6 million to $7 million per annum which is higher than the $4.2 million and $4.0 million of total operational capital expenditure recorded in the PFI.

Significant growth capital expenditure items in FY2014F that are beyond 'ordinary asset replacement and maintenance' or long-run average expenditure levels considered necessary to 'stay-in business' include:

- $1.5 million to redevelop 30 ha of orchard at Mr Apple;
- $3.1 million for an electricity engine room upgrade at our largest coldstore in Timaru; and
- $0.7 million in upgrades at Whakatu Coldstores, including the finalisation of the latest warehouse management system upgrade (before rolling out across Polarcold).

Significant growth capital expenditure items in FY2015F include:

- $1.0 million in redevelopment of approximately 15 ha of orchard;

- $5.0 million to install all refrigeration equipment and racking at the Auckland coldstore. Note that this coldstore is being built by the landlord, but the specialist equipment necessary to convert it into a coldstore must be installed by Scales; and

- $0.6 million to roll out the warehouse management system upgrade across Polarcold.

Working Capital Items
Trade receivables and accrued income assume normal receipt terms. Payables and accruals assume standard payment terms for operating expenses.

Inventories largely relate to unsold Meateor products within the Food Ingredients division. Other inventories comprise fuel stocks, pesticides and fungicides, or other materials necessary to carry out normal activities within each of the operating companies. Note that Mr Apple inventories of unsold fruit are nil at the end of the year. Apples are picked and sold within the same year and the vast majority of all sales are concluded by the end of September.

Mr Apple's operations have a large seasonal component to them. With costs incurred ahead of sales (for example pruning, picking, chilling, packing and cool storage as well as advance payments made to external growers) this gives rise to a temporary funding requirement for which we have secured working capital facilities from our bankers for the benefit of Mr Apple, for a total of $42 million.

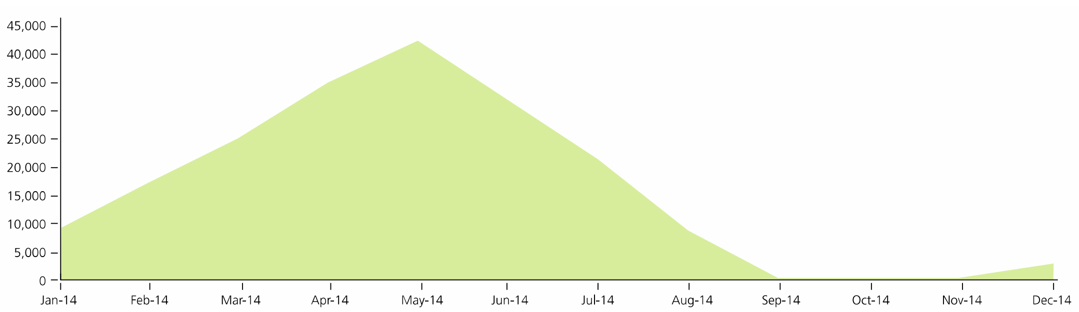
A typical example of Mr Apple's funding requirements is shown in the table below, which reflects Mr Apple's funding requirement expectations for FY2014F:

- initial requirements for cash start in December;

- cash requirements steadily increase through to May; then

- cash receipts from the sale of apples offshore allow the facility to be repaid generally by September.

Mr Apple Cash Flow Requirements



Debt, Interest and Banking Covenants
Appropriate debt funding is in place (i.e. term debt and working capital (or short-term debt) bank funding facilities) and will remain in place for FY2014F and FY2015F.

Proceeds from issuing new equity will be immediately applied against term debt facilities.

Interest expense will be at an average rate of 6.3% on all term borrowings for both FY2014F and FY2015F given interest rate hedges in place, and 5.0% and 6.0% for FY2014F and FY2015F respectively, on working capital and overdraft borrowings.

$000	FY2012	FY2013	FY2014F	FY2015F
Term debt borrowings (plus any current portion of term debt)	64,582	60,000	30,000	30,000
Working capital facility	4,500	-	2,500	-
Other loans or finance leases	919	-	-	-
Net Overdraft / (Cash) balances	689	(4,148)	2,216	(2,102)
Net interest bearing debt	**70,690**	**55,852**	**34,716**	**27,898**

Key banking covenants are as follows:

	FY2014F	FY2015F
Interest Cover Ratio		
Ratio	9.1x	12.1x
Covenant (must be greater than)	3.0x	3.0x
Headroom	203%	303%
Senior Term Debt Leverage Ratio (times covered)		
Ratio	0.8x	0.8x
Covenant (must be less than)	2.5x	2.5x
Headroom	213%	213%
Tangible Net Worth ($000s)		
Tangible Net Worth	155,775	163,932
Covenant (must be greater than)	100,000	100,000
Headroom	56%	64%

Further discussion on our financing arrangements, including the financial metrics used in calculating the above ratios, is contained in *Section 7.8: Description of Scales' Financing Arrangements*.

Related Party Transactions
Except as disclosed in *Section 5: About Scales*, and in respect of the new Senior Executive LTI Scheme, all transactions with George H Investments, joint venture partners, associated companies, and key management personnel will continue to be conducted on an arm's length basis and at normal market prices and on commercial terms.

Equity
Outside of the new Senior Executive LTI Scheme described in *Section 5.5: Board, Senior Management and Corporate Governance*, there will be no new equity issued post the Allotment Date.

Income Tax Expense
The income tax rate will be 28% on taxable profit based on the current corporate tax rate in New Zealand. Deferred tax liability will remain in line with the liability at 31 December 2013.

Tax will be paid when it falls due, subject to accruals.

Dividends
Dividends will be declared and paid based on the current dividend policy.

Total dividends in respect of FY2014F are expected to be $13.0 million (9.4 to 9.6 cents per Share), to be paid following announcement of the FY2014 actual result in or about May 2015.

Total dividends in respect of FY2015F are expected to be $14.5 million (10.5 to 10.7 cents per Share), to be paid following announcement of the FY2015 actual result in or about May 2016.

Dividends for FY2014F and FY2015F are expected to be fully imputed. At a tax rate of 28% the dividends declared grossed up for imputation credits are forecast to be $18.0 million in FY2014F and $20.2 million in FY2015F.

A dividend of $13.7 million is being paid in July 2014 in respect of FY2013, prior to the listing of Scales.

Demerger
In April 2014 we completed the demerger of our Investments operating division, which included property and investment assets, from the Group. This demerger was effective on 30 April 2014 with Scales

shareholders at that time being issued with shares in George H Investments Limited (the holding company for the Investments group) and receiving a cash payment.

The net profit result and a gain on listed shares of the Investments operating division for the four months to 30 April 2014 (both the net profit result and the gain on listed shares is highlighted as being from discontinued activities) is included in FY2014F.

7.3.7 Sensitivity Analysis

PFI is inherently subject to uncertainty and accordingly actual results are likely to vary from PFI and this variation could be material. You can find a full description of assumptions relating to the PFI for FY2014F and FY2015F in *Section 7.3.5: General Assumptions* and *Section 7.3.6: Specific Assumptions*, along with a description of risks in *Section 6: What are my Risks?*

The sensitivity analysis below is provided to assist you with assessing the potential effects of variations in certain key assumptions (defined as those most likely to materially affect results).

The sensitivity for each assumption is not intended to be indicative or predictive of the possible range of outcomes. Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions (i.e. when the assumption is sensitised, all other things remain equal). In reality, it is more likely that more than one assumption may move giving rise to compounding or offsetting effects. Furthermore the sensitivity modelled does not take into account that management action will be taken which may potentially mitigate effects. Therefore, care should be taken in interpreting the sensitivity analysis.

Sensitivities have been modelled to show the effect on forecast EBITDA for FY2015F only. The most significant sensitivities relate to the Horticulture division for which FY2014F volumes are now largely known and a significant portion of the fruit has already been sold.

Export Yields per ha
Export yields per ha are forecast to increase from 2,478 TCEs per ha in FY2014F to 2,590 TCEs per ha in FY2015F. The increase is due to maturing orchard and a return to 'average' yields.

Should a significant weather event take place, such as a widespread and large hail event in spring or summer, export yields are likely to decrease. Conversely, favourable growing conditions such as those experienced for the FY2013 harvest, or improvements in technology or orchard development may increase export yields. The plus or minus 10% sensitivity range provides an illustration of the impact of higher, or lower, export yields. We consider that a 10% increase in yields from our own orchards can be accommodated within the capacity of our existing post-harvest facilities.

Apple Prices in NZD per TCE
NZD equivalent apple prices may increase or decrease due to factors within Mr Apple's influence (such as the perceived quality of the Mr Apple brand) or outside of its control (such as a disease or pest incursion, changes in the global supply of apples for international trade specifically from other Southern Hemisphere producers, changes in the tastes and preferences for individual varieties by market, or changes in foreign exchange rates on the uncovered portion of Mr Apple's foreign exchange exposure). The plus or minus 10% sensitivity range provides an illustration of the impact of higher, or lower, apple prices.

Mr Apple Direct Costs
Mr Apple direct costs may increase or decrease due to changes in the costs of supplies, labour or transport. The plus or minus 5% sensitivity range provides an illustration of the impact of higher, or lower, total direct costs. Given the large number and varying nature of direct costs a reduced range is presented to allow for offsetting movements. Direct costs are defined to include labour, transport (land and sea), packaging and other consumables, and other direct costs.

Grower payments are indirectly affected through changes in transport and pool costs but have not been directly flexed.

Utilisation of Coldstore Facilities
Utilisation of coldstore facilities may decrease where a large customer goes out of business, in a disease incursion event such as introduction of foot and mouth disease, or other reasons that reduce the amount of product that requires cold storage. With facilities sized to be close to full throughout the peak season, any material change in utilisation would likely be negative. The sensitivity range is based on no change through to a 10% reduction in volumes, average duration in store, or a combination of both to deliver the effect of reducing average utilisation by 10% (i.e. from 65% to 59%).

Foreign Exchange Rates
Mr Apple, Meateor and Profruit are all subject to movement in foreign exchange rates on the sale of goods in foreign denominated currencies. The net foreign exchange exposure of each business is offset by sea freight costs which are typically in USD.

Foreign exchange rates are likely to vary. We hedge our foreign exchange exposure with short and long-term instruments, which can be up to 4 years in length. The plus or minus $0.01 sensitivity range provides an illustration of the impact of higher, or lower, foreign exchange spot rates (applied to all currencies we trade in). Note that net exposure covered under existing foreign exchange instruments are therefore not affected by this sensitivity.

Interest Rates
We have both term and working capital facilities that are exposed to longer term shifts in the bank bill borrowing rate (*BKBM*). The plus or minus 1% change in BKBM sensitivity provides an illustration of the impact of higher, or lower, interest rates. We have interest rate swaps in place which lock in an interest rate for a period of time and only the uncovered borrowings are affected in this sensitivity. Our existing interest rate swaps will cover all of our $30 million in term debt through until early 2018, limiting our exposure to only seasonal drawings under working capital facilities.

Auckland Coldstore
At the time of writing, the proposed Auckland coldstore project remains conditional on Scales and its landlord entering binding construction contracts within budget estimates by the end of October 2014. Whilst we have taken the view that the project remains more likely than not (and have therefore included it in the PFI), it may be cancelled or postponed as a result of any number of future events. The sensitivity below indicates the FY2015F EBITDA impact should the Auckland coldstore project be cancelled or postponed beyond FY2015F. Note that in addition to the EBITDA impact, growth capital expenditure of $5 million would also no longer be incurred.

External Grower Volumes
Mr Apple packs, coolstores and markets apples on behalf of external growers in the Hawke's Bay and markets apples on behalf of external growers in Nelson. External grower volumes may increase or decrease if grower relationships are established or discontinued, if existing growers remove or plant more orchard, and based on ordinary variations in production due to the weather. Changes in volumes affect profit from Mr Apple's packhouse and coolstore operations (in the case of Hawke's Bay growers) and commissions earned on the sale of apples (in the case of all external growers). The plus or minus 10% sensitivity range provides an illustration of the impact of higher, or lower, total external grower volumes.

Sensitivity	Increase / Decrease	FY2015F EBITDA Impact ($ millions)
Export yields per ha	+ / - 10%	3.3 / (3.3)
Apples prices (NZD per TCE)	+ / - 10%	6.6 / (6.6)
Mr Apple direct costs	+ / - 5%	3.7 / (3.7)
Utilisation of coldstore facilities	-10%	(2.4)
Foreign exchange rates	+ / - 1c change in FX rates	(1.0) / 1.0
Interest rates (impact on Net Profit)	+ / - 1% change in interest rates	(0.1) / 0.1
Auckland coldstore project	Cancelled or delayed beyond the PFI Period	0.3
External grower volumes	+ / - 10%	0.3 / (0.3)

7.4 FIVE YEAR SUMMARY OF HISTORICAL FINANCIAL INFORMATION

7.4.1 Notes to the Summary of Historical Financial Statements

Our summary financial statements, as required by clause 9(1)(a) of Schedule 1 of the Securities Regulations, are set out below.

The summary financial statements are those of Scales Corporation Limited and its subsidiaries, associate companies and joint ventures (the *Group*) which is a profit oriented entity.

The summary financial statements comply with FRS-43 Summary Financial Statements, subject to the Securities Regulations, whereby the summary financial statements are not required to include:

- a comparison of, and explanations for, major variances between prospective and historical financial statements;
- information about events occurring after the balance date of a period; or
- comparative information for any period before the earliest period presented in the summary financial statements.

The financial information has been extracted from audited full financial statements that have been prepared in accordance with NZ GAAP and comply with NZIFRS, IFRS and other applicable financial reporting standards as appropriate for profit oriented entities, subject to the following restatements and reclassifications:

- The adoption of amendments to NZ IAS 12 Income Taxes in the year ended 31 December 2012 resulted in a change to the way in which deferred tax is calculated on investment property measured at fair value in accordance with NZ IAS 40 Investment Property. The amended standard requires deferred tax liabilities to be measured based on the tax consequences of a sale of the investment property at fair value. The amendment was applied retrospectively to the comparative period with adjustments being made to retained earnings and the deferred tax liability. The effect of this was to decrease the deferred tax liability and increase retained earnings by $2,353,256 at 1 July 2011, to decrease the income tax credit and increase the loss by $178,772 for the six month period to 31 December 2011, and to decrease the deferred tax liability and increase retained earnings by $2,174,484 at 31 December 2011.
- During the year ended 31 December 2013, it was determined that all biological assets were to be classified as non-current assets. This has led to a reclassification of the balance at 31 December 2012 to record the unharvested crop as non-current.

The following summary consolidated statements of comprehensive income have been presented in a format similar to the one the Directors intend to present in future annual financial statements of the Group. Included in the statements are sub-totals for EBITDA (earnings before interest, taxation, depreciation and amortisation) and EBIT (earnings before interest and tax). These are measures that are commonly used in the industry to assess the operating performance of businesses and to compare them with other businesses. EBITDA provides a performance measure of the business that also allows an assessment of the trading cash flows generated as it excludes the non-cash depreciation and amortisation expense. EBIT provides a measure that enables a comparison of returns with other businesses that is not distorted by different equity and debt funding strategies that may be adopted by different entities.

The principal accounting policies adopted in the preparation of the financial statements are set out in the financial statements for the year ended 31 December 2013 on pages 91 to 126. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The full financial statements for each period presented in the summary have been audited by Deloitte and were given unmodified audit opinions.

Summary financial statements do not include all disclosures provided in the full financial statements and cannot be expected to provide as complete an understanding as that provided by the full financial statements. The audited financial statements for the year ended 31 December 2013 are included in this Prospectus.

The summary financial statements have been authorised for issue by a resolution of the Board of Directors dated 19 June 2014.

The Board authorised the issue of the full financial statements on the following dates:

- Year ended 30 June 2010 — 19 October 2010
- Year ended 30 June 2011 — 31 October 2011
- Six months ended 31 December 2011 — 16 March 2012
- Year ended 31 December 2012 — 28 March 2013
- Year ended 31 December 2013 — 24 March 2014

7.4.2 Summary Consolidated Statements of Comprehensive Income

	GROUP				
	30 June 2010 $'000 (12 Months)	30 June 2011 $'000 (12 Months)	31 December 2011 $'000 (6 Months)	31 December 2012 $'000 (12 Months)	31 December 2013 $'000 (12 Months)
Revenue	183,286	223,379	93,972	227,419	272,839
Share of profits of associate companies and joint ventures accounted for using the equity method	(490)	623	987	1,467	1,567
Other gains	3,920	6,891	1,243	8,334	3,685
Cost of sales, operating and administration expenses	(157,890)	(199,139)	(95,384)	(200,336)	(233,040)
Other losses	(720)	(2,330)	(4,474)	(3,820)	(615)
EBITDA	28,106	29,424	(3,656)	33,064	44,436
Depreciation and amortisation	(8,519)	(8,695)	(4,223)	(8,296)	(9,155)
EBIT	19,587	20,729	(7,879)	24,768	35,281
Finance costs	(9,464)	(9,375)	(4,633)	(8,211)	(7,214)
PROFIT (LOSS) BEFORE INCOME TAX EXPENSE	10,123	11,354	(12,512)	16,557	28,067
Income tax (expense) credit	(9,436)	2,924	3,526	(2,933)	(7,629)
PROFIT (LOSS) FOR THE PERIOD	687	14,278	(8,986)	13,624	20,438
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified to profit or loss:					
Gain (loss) on shares in listed company	-	-	-	(2,651)	1,206
Revaluation of land and buildings	3,545	(2,147)	(1,462)	-	7,098
Income tax relating to items that will not be reclassified	190	(134)	333	-	(1,573)
	3,735	(2,281)	(1,129)	(2,651)	6,731
Items that may be reclassified subsequently to profit or loss:					
Gain (loss) on cash flow hedges	539	(545)	(360)	3,080	1,218
Income tax relating to items that may be reclassified	(218)	153	101	(863)	(341)
	321	(392)	(259)	2,217	877
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	4,056	(2,673)	(1,388)	(434)	7,608
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	4,743	11,605	(10,374)	13,190	28,046

The Group recorded a loss in the 6 month period to 31 December 2011. This loss is due to both the seasonality of apple sales and the requirement to value apple inventory at its expected net selling price for financial reporting purposes. Accordingly, the value of apples harvested in 2011 was recognised in the financial period ended 30 June 2011. No material revenues from the sale of apples were recorded in the 6 month period ended 31 December 2011. This loss was not due to a material worsening of Scales' trading conditions or financial performance.

7.4.3 Summary Consolidated Statements of Changes in Equity

	GROUP				
	30 June 2010 $'000 (12 Months)	30 June 2011 $'000 (12 Months)	31 December 2011 $'000 (6 Months)	31 December 2012 $'000 (12 Months)	31 December 2013 $'000 (12 Months)
Equity at the start of the period - (as previously reported)	112,960	114,333	125,938	118,294	157,073
Effect of change in accounting policy in respect of deferred taxation	-	-	2,354	-	-
Equity at the start of the period - (restated)	**112,960**	**114,333**	**128,292**	**118,294**	**157,073**
Profit (loss) for the period	687	14,278	(8,986)	13,624	20,438
Other comprehensive income (loss) for the period	4,056	(2,673)	(1,388)	(434)	7,608
Total comprehensive income for the period	**4,743**	**11,605**	**(10,374)**	**13,190**	**28,046**
Dividends paid	(3,370)	-	-	-	(8,107)
Issue of share capital	-	-	376	25,589	900
Shares repurchased and cancelled	-	-	-	-	(2,599)
Equity at the end of the period	**114,333**	**125,938**	**118,294**	**157,073**	**175,313**
Comprising;					
Share Capital	37,691	37,691	38,067	63,656	61,957
Properties Revaluation Reserve	27,909	24,055	22,905	22,849	27,408
Hedging Reserve	(2,020)	(2,413)	(2,671)	(454)	423
Retained Earnings	50,753	66,605	59,993	71,022	85,525
Total Equity	**114,333**	**125,938**	**118,294**	**157,073**	**175,313**

7.4.4 Summary Consolidated Statements of Financial Position

	GROUP				
	30 June 2010 $'000	30 June 2011 $'000	31 December 2011 $'000	31 December 2012 $'000	31 December 2013 $'000
EQUITY					
Share capital	37,691	37,691	38,067	63,656	61,957
Properties revaluation reserve	27,909	24,055	22,905	22,849	27,408
Hedging reserve	(2,020)	(2,413)	(2,671)	(454)	423
Retained earnings	50,753	66,605	59,993	71,022	85,525
TOTAL EQUITY	**114,333**	**125,938**	**118,294**	**157,073**	**175,313**
Represented By:					
CURRENT ASSETS					
Cash and bank balances	782	5,482	71	181	4,461
Trade and other receivables	23,356	38,289	13,793	9,891	12,910
Other financial assets	961	143	1,952	2,763	2,058
Inventories	62,514	55,626	20,316	11,075	11,096
Biological assets - livestock	158	410	-	-	-
Current tax assets	-	126	117	2	-
Property held for sale	2,118	-	-	2,200	2,125
Other current assets	325	425	801	2,442	2,216
TOTAL CURRENT ASSETS	**90,214**	**100,501**	**37,050**	**28,554**	**34,866**
NON- CURRENT ASSETS					
Investments accounted for using the equity method	2,444	3,066	3,354	5,475	5,052
Other financial assets	1,408	598	14,388	22,684	24,457
Property, plant and equipment	163,256	150,640	145,152	145,969	152,104
Investment property	32,226	33,307	33,360	25,827	22,334
Biological assets	15,910	15,400	14,062	25,879	26,853
Goodwill	5,320	5,320	5,320	5,320	5,320
Other intangible assets	752	648	807	1,370	1,672
TOTAL NON-CURRENT ASSETS	**221,316**	**208,979**	**216,443**	**232,524**	**237,792**
TOTAL ASSETS	**311,530**	**309,480**	**253,493**	**261,078**	**272,658**
CURRENT LIABILITIES					
Trade and other payables	28,462	29,724	25,307	14,410	15,523
Borrowings	64,312	40,544	10,292	11,025	-
Current tax liabilities	334	-	-	-	2,100
Other financial liabilities	-	-	437	1,089	599
TOTAL CURRENT LIABILITIES	**93,108**	**70,268**	**36,036**	**26,524**	**18,222**
NON- CURRENT LIABILITIES					
Borrowings	80,961	92,056	83,208	59,632	60,000
Deferred tax liabilities	20,186	17,710	11,386	15,067	17,458
Other financial liabilities	2,942	3,508	4,569	2,782	1,665
TOTAL NON-CURRENT LIABILITIES	**104,089**	**113,274**	**99,163**	**77,481**	**79,123**
TOTAL LIABILITIES	**197,197**	**183,542**	**135,199**	**104,005**	**97,345**
NET ASSETS	**114,333**	**125,938**	**118,294**	**157,073**	**175,313**

7.4.5 Summary Consolidated Statements of Cash Flows

	GROUP				
	30 June 2010 $'000 (12 Months)	30 June 2011 $'000 (12 Months)	31 December 2011 $'000 (6 Months)	31 December 2012 $'000 (12 Months)	31 December 2013 $'000 (12 Months)
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from customers	190,982	213,238	118,499	237,737	272,347
Dividends received	75	-	24	25	2,020
Interest received	507	513	522	716	532
Income tax refund	1,973	6	-	-	-
	193,537	**213,757**	**119,045**	**238,478**	**274,899**
Cash was disbursed to:					
Payments to suppliers and employees	166,373	186,526	77,695	204,826	228,721
Interest paid	9,464	9,375	4,633	8,211	7,214
Subvention payment	6,788	-	-	-	-
Income tax paid	-	-	1	1	5,050
	182,625	**195,901**	**82,329**	**213,038**	**240,985**
NET CASH GENERATED BY OPERATING ACTIVITIES	**10,912**	**17,856**	**36,716**	**25,440**	**33,914**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Other advances repaid	-	940	700	1,488	-
Sale of investments	-	976	-	-	-
Sale of investment properties	-	370	1,080	7,183	8,244
Sale of NZ Government Stock	500	-	-	-	1,021
Sale of property, plant and equipment, biological assets and other intangible assets	3,143	6,092	3,843	5,715	3,470
	3,643	**8,378**	**5,623**	**14,386**	**12,735**
Cash was applied to:					
Advances to other entities	985	-	-	-	1,059
Deposits with financial institutions	-	143	-	-	-
Investment in biological assets	1,135	705	868	2,000	1,074
Loans to employees	-	-	900	350	-
Purchase of associate company	-	-	-	-	1,782
Purchase of businesses	4,353	-	-	-	-
Purchase of investment properties	484	-	2,938	2,993	3,745
Purchase of NZ Government Stock	531	-	-	-	520
Purchase of other intangible assets	387	353	362	998	1,016
Purchase of shares in listed company	-	-	-	22,899	-
Purchase of other shares	18	-	6	15	23
Purchase of property plant and equipment	11,953	7,659	3,952	13,208	12,387
	19,846	**8,860**	**9,026**	**42,463**	**21,606**
NET CASH (USED IN) INVESTING ACTIVITIES	**(16,203)**	**(482)**	**(3,403)**	**(28,077)**	**(8,871)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Proceeds from borrowings	9,968	62,300	4,000	10,367	-
Shares issued	-	-	376	25,589	600
	9,968	**62,300**	**4,376**	**35,956**	**600**
Cash was applied to:					
Borrowings repaid	2,896	74,974	43,362	33,603	10,001
Dividends paid	3,370	-	-	-	8,107
Shares repurchased	-	-	-	-	2,599
	6,266	**74,974**	**43,362**	**33,603**	**20,707**
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**3,702**	**(12,674)**	**(38,986)**	**2,353**	**(20,107)**
NET (DECREASE) INCREASE IN NET CASH	**(1,589)**	**4,700**	**(5,673)**	**(284)**	**4,936**
Cash and cash equivalents at the beginning of the period	2,371	782	5,482	(191)	(475)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**782**	**5,482**	**(191)**	**(475)**	**4,461**
Represented by:					
Cash and bank balances	782	5,482	71	181	4,461
Bank overdraft	-	-	(262)	(656)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**782**	**5,482**	**(191)**	**(475)**	**4,461**

7.5 AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2013	NOTES	GROUP 2013 $'000	GROUP 2012 $'000	COMPANY 2013 $'000	COMPANY 2012 $'000
Revenue	2	272,839	227,419	1,111	1,147
Other gains	3	3,685	8,334	165	46
Share of profits of associate companies and joint ventures accounted for using the equity method	4	1,567	1,467	-	-
		278,091	237,220	1,276	1,193
Amortisation expense	23	696	435	46	64
Auditor's remuneration	5	281	148	193	68
Bad debts		13	-	-	-
Changes in inventories		(21)	(69)	-	-
Depreciation expense	19	8,459	7,861	22	35
Direct expenses		34,076	33,099	1,020	1,011
Directors' fees		245	259	70	84
Donations		24	8	-	-
Electricity		7,121	6,624	-	-
Employee benefits expense	6	49,738	43,993	1,090	1,715
Finance costs	7	7,214	8,211	7,341	8,260
Grower payments		35,698	34,478	-	-
Impairment of non-current assets	19	2,043	-	-	-
Insurance		3,477	2,483	86	82
Materials and consumables		22,413	17,213	-	-
Ocean and air freight		49,343	39,079	-	-
Operating lease expenses		8,740	7,397	12	15
Other losses	3	615	3,820	5	38
Packaging		12,136	10,163	-	-
Repairs and maintenance		7,713	5,461	1	6
		250,024	220,663	9,886	11,378
PROFIT (LOSS) BEFORE INCOME TAX EXPENSE		28,067	16,557	(8,610)	(10,185)
Income tax expense	8	7,629	2,933	(2,300)	1,006
PROFIT (LOSS) FOR THE YEAR		20,438	13,624	(6,310)	(11,191)
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified to profit or loss:					
Gain (loss) on shares in listed company	12	1,206	(2,651)	-	-
Revaluation of land and buildings	10	7,098	-	-	-
Income tax relating to items that will not be reclassified	8	(1,573)	-	-	-
		6,731	(2,651)	-	-
Items that may be reclassified subsequently to profit or loss:					
Gain on cash flow hedges	11	1,218	3,080	4,381	848
Income tax relating to items that may be reclassified	8	(341)	(863)	(1,227)	(238)
		877	2,217	3,154	610
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		7,608	(434)	3,154	610
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		28,046	13,190	(3,156)	(10,581)
EARNINGS PER SHARE:					
Basic earnings per share (cents)	35	50.8	38.5		
Diluted earnings per share (cents)	35	50.8	38.5		

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

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2013	NOTES	Share Capital $'000	Properties Revaluation Reserve $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
GROUP						
Balance at 1 January 2012		38,067	22,905	(2,671)	59,993	118,294
Profit for the year		-	-	-	13,624	13,624
Other comprehensive income (loss) for the year		-	-	2,217	(2,651)	(434)
Total comprehensive income for the year		-	-	2,217	10,973	13,190
Transfers	10,12	-	(56)	-	56	-
Issue of share capital	9	25,589	-	-	-	25,589
Balance at 31 December 2012		63,656	22,849	(454)	71,022	157,073
Profit for the year		-	-	-	20,438	20,438
Other comprehensive income for the year		-	5,525	877	1,206	7,608
Total comprehensive income for the year		-	5,525	877	21,644	28,046
Transfers	10,12	-	(966)	-	966	-
Dividends paid	12	-	-	-	(8,107)	(8,107)
Issue of share capital	9	900	-	-	-	900
Shares repurchased and cancelled	9	(2,599)	-	-	-	(2,599)
Balance at 31 December 2013		61,957	27,408	423	85,525	175,313
COMPANY						
Balance at 1 January 2012		38,067	-	(3,162)	(22,989)	11,916
Loss for the year		-	-	-	(11,191)	(11,191)
Other comprehensive income for the year		-	-	610	-	610
Total comprehensive income (loss) for the year		-	-	610	(11,191)	(10,581)
Issue of share capital	9	25,589	-	-	-	25,589
Balance at 31 December 2012		63,656	-	(2,552)	(34,180)	26,924
Loss for the year		-	-	-	(6,310)	(6,310)
Other comprehensive income for the year		-	-	3,154	-	3,154
Total comprehensive income (loss) for the year		-	-	3,154	(6,310)	(3,156)
Dividends paid	12	-	-	-	(8,107)	(8,107)
Issue of share capital	9	900	-	-	-	900
Shares repurchased and cancelled	9	(2,599)	-	-	-	(2,599)
Balance at 31 December 2013		61,957	-	602	(48,597)	13,962

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

Statement of Financial Position

AS AT 31 DECEMBER 2013	NOTES	GROUP		COMPANY	
		2013 $'000	2012 $'000	2013 $'000	2012 $'000
EQUITY					
Share capital	9	61,957	63,656	61,957	63,656
Properties revaluation reserve	10	27,408	22,849	-	-
Hedging reserve	11	423	(454)	602	(2,552)
Retained earnings (losses)	12	85,525	71,022	(48,597)	(34,180)
		175,313	157,073	13,962	26,924
NON - CURRENT LIABILITIES					
Borrowings	25	60,000	59,632	60,000	59,632
Deferred tax liabilities	8	17,458	15,067	153	-
Other financial liabilities	26	1,665	2,782	245	2,782
		79,123	77,481	60,398	62,414
CURRENT LIABILITIES					
Trade and other payables	24	15,523	14,411	843	964
Borrowings	25	-	11,024	-	11,384
Current tax liabilities	8	2,100	-	-	-
Other financial liabilities	26	599	1,089	23,251	24,217
		18,222	26,524	24,094	36,565
		272,658	261,078	98,454	125,903

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

AS AT 31 DECEMBER 2013

	NOTES	GROUP 2013 $'000	GROUP 2012 $'000	COMPANY 2013 $'000	COMPANY 2012 $'000
NON - CURRENT ASSETS					
Investments accounted for using the equity method	4	5,052	5,475	-	-
Other financial assets	17	24,457	22,685	87,981	122,585
Property, plant and equipment	19	152,104	145,969	52	56
Investment property	20	22,334	25,827	-	-
Biological assets	21	26,853	25,879	-	-
Deferred tax assets	8	-	-	-	1,744
Goodwill	22	5,319	5,319	-	-
Other intangible assets	23	1,672	1,370	75	64
		237,791	232,524	88,108	124,449
CURRENT ASSETS					
Cash and bank balances		4,461	181	292	-
Trade and other receivables	13	12,911	9,891	2,037	1,382
Other financial assets	14	2,058	2,763	23	-
Inventories	15	11,096	11,075	-	-
Current tax assets	8	-	2	7,981	2
Property held for sale	20	2,125	2,200	-	-
Other current assets	16	2,216	2,442	13	70
		34,867	28,554	10,346	1,454
		272,658	261,078	98,454	125,903

For and on behalf of the Board of Directors who authorised the issue of the financial statements for the year ending 31 December 2013 on 24 March 2014.

J I Mayson
Chairman

A J Borland
Managing Director

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

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	GROUP 2013 $'000	GROUP 2012 $'000	COMPANY 2013 $'000	COMPANY 2012 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from customers		272,347	237,737	395	83
Dividends received		2,020	25	-	-
Interest received		532	716	1,003	1,096
Income tax refund		-	-	-	130
		274,899	238,478	1,398	1,309
Cash was disbursed to:					
Payments to suppliers and employees		228,721	204,826	3,478	3,092
Interest paid		7,214	8,211	7,341	8,260
Income tax paid		5,050	1	5,010	-
		240,985	213,038	15,829	11,352
NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES	27	33,914	25,440	(14,431)	(10,043)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Advances to subsidiaries repaid		-	-	36,038	-
Other advances repaid		-	1,488	-	142
Sale of investment properties		8,244	7,183	-	-
Sale of NZ Government Stock		1,021	-	-	-
Sale of property, plant and equipment and other intangible assets		3,470	5,715	13	119
		12,735	14,386	36,051	261
Cash was applied to:					
Advances to subsidiaries		-	-	-	195
Advances to other entities		1,059	-	-	-
Investment in biological assets		1,074	2,000	-	-
Loans to employees		-	350	-	350
Purchase of associate company		1,782	-	-	-
Purchase of investment properties		3,745	2,993	-	-
Purchase of NZ Government Stock		520	-	-	-
Purchase of other intangible assets		1,016	998	58	9
Purchase of shares in listed company		-	22,899	-	-
Purchase of other shares		23	15	-	-
Purchase of property plant and equipment		12,387	13,208	34	18
		21,606	42,463	92	572
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		(8,871)	(28,077)	35,959	(311)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Advances from subsidiary companies		-	-	-	11,654
Proceeds from borrowings		-	10,367	-	9,450
Shares issued		600	25,589	600	25,589
		600	35,956	600	46,693
Cash was applied to:					
Advances from subsidiary companies repaid		-	-	114	-
Borrowings repaid		10,001	33,603	9,082	33,574
Dividends paid		8,107	-	8,107	-
Shares repurchased		2,599	-	2,599	-
		20,707	33,603	19,902	33,574
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		(20,107)	2,353	(19,302)	13,119
NET INCREASE (DECREASE) IN NET CASH		4,936	(284)	2,226	2,765
Cash and cash equivalents at the beginning of the year		(475)	(191)	(1,934)	(4,699)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		4,461	(475)	292	(1,934)
Represented by:					
Cash and bank balances		4,461	181	292	-
Bank overdraft		-	(656)	-	(1,934)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		4,461	(475)	292	(1,934)

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

1 SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

Scales Corporation Limited (the Company) is a profit-oriented company incorporated in New Zealand and registered under the Companies Act 1993. The Group consists of Scales Corporation Limited, its subsidiaries, associate company and joint venture. The principal activities of the Group are to provide logistics services, grow apples, export products, provide insurance services to companies within the Group and operate storage and processing facilities. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with the Financial Reporting Act 1993.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities.

Basis of Financial Statement Preparation

The financial statements are presented in New Zealand dollars, being the functional currency, and values are rounded to the nearest thousand dollars.

The financial statements have been prepared on the historical cost basis except for certain assets and financial instruments that are measured at revalued amounts or fair values as explained in the accounting policies below.
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. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of NZ IFRS 2, leasing transactions that are within the scope of NZ IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in NZ IAS 2 or value in use in NZ IAS 36.

In addition, 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 level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The levels are described as follows:

- 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 included 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.

Accounting Judgements and Major Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

The Group determines whether goodwill is impaired on an annual basis and whenever there is an indication of impairment.

Accounting Judgements and Major Sources of Estimation Uncertainty (continued)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 22.

The fair values of biological assets (note 21), land and buildings (note 19), investment property (note 20), derivative financial instruments (notes 14, 17, 26 and 33) and other non-current financial assets at fair value through other comprehensive income (note 17) are determined in accordance with the applicable policies set out below.

Summary of Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. 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.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows between members of the Group are eliminated in full on consolidation.

Investments in subsidiaries are recorded at cost less any impairment in the Company's financial statements.

(b) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with NZ IAS 12 Income Taxes and NZ IAS 19 Employee Benefits.
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with NZ IFRS 2 at the acquisition date: and
- assets (or disposal groups) that are classified as held for sale in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities incurred. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

(b) Business Combinations (continued)

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with NZ IFRS 9 Financial Instruments or NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

(c) Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

An investment in an associate or joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture until the date it ceases to be an associate or joint venture. On acquisition of the investment in an associate or joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying value of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

Investments in an associate or joint venture are accounted for in the Company's financial statements using the cost method and dividends or distributions received are recorded in profit or loss.

(d) Goods and Services Tax

Revenues, expenses, assets, liabilities and cash flows are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the taxation authority is classified as operating cash flows and shown net in the statement of cash flows.

(e) Revenue Recognition

Sale of Goods

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

(e) Revenue Recognition (continued)

Rendering of Services

Revenue from a contract to provide services is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group. The stage of completion of the contract at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Rental Income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Dividend

Dividend revenue from subsidiaries and other companies is recognised when the Group's right to receive payment has been established.

Interest

Interest revenue is accrued on a time basis using the effective interest method.

Commission

Commission is recognised as revenue when the Group's right to receive payment becomes unconditional.

(f) Finance Costs

Borrowing 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.

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

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

(g) Employee Benefits

Provision is made for benefits accruing 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.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash flows to be made by the entities in respect of services provided by employees up to the reporting date.

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

(h) Leased Assets

The Company and Group lease certain property, plant and equipment. Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the term of the lease.

The Group as Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss.

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

(i) Income Tax
Income tax expense in relation to the profit for the period comprises current tax and deferred tax.

Current Tax
Current tax is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax
Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computations of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences or unused tax losses and tax offsets can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiary and associate companies except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets and current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Year
Current tax and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

(j) Share Capital
Shares issued by the Company are recorded at the proceeds received, net of direct issue costs.

Bonus shares issued for no consideration are not recognised as a transaction in the financial statements.

(k) Share-based Payment Arrangement
Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based payments are set out in note 36.

(k) Share-based Payment Arrangement (continued)

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

(l) Financial Assets

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

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

Financial assets at fair value through other comprehensive income

Listed shares held by the Group are classified as investments in equity instruments at fair value through other comprehensive income (FVTOCI) on the basis that these instruments are not held for trading. The shares are valued at quoted bid prices in an active market.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with NZ IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are not measured, or designated, as 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. The fair value of certain bonds held by the Group classified as being at fair value through profit or loss are determined with reference to quoted market prices.

Financial assets measured at amortised cost

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

Impairment of financial assets

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

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

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

Assets held at amortised cost are assessed for indications of impairment at each balance date. Accounts receivable are stated at amortised cost less any impairment. All known bad debts are written off during the financial year. Intragroup balances due from subsidiary and associate companies are measured at amortised cost less impairment losses.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

(m) Inventories

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.

(n) Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such an asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 12 months from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(o) Property, Plant and Equipment

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

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

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties 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.

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

Buildings	20 to 50 years
Office Equipment and Motor Vehicles	2 to 20 years
Plant and Equipment	2 to 25 years

The carrying amount for an item of property, plant and equipment is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

(p) Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

(q) Biological Assets

Biological assets are stated at their fair value less estimated sale costs. Changes in the fair value of biological assets are recognised in profit or loss.

(r) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

(s) Intangible Assets

Computer software

Acquired computer software licences are reported at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised on a straight-line basis over their estimated useful lives. Usually this period does not exceed 5 years.

(t) Impairment of Assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

A cash generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. An impairment of goodwill is not subsequently reversed.

(u) Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are recognised at amortised cost.

(v) 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.

(w) Foreign Currency Transactions

In preparing the financial statements of the individual entities, the transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period monetary items denominated in foreign currencies are translated at the rates prevailing at the end of the reporting period.

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

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the Group's functional currency using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

(x) Derivative Financial Instruments

The Group may enter into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including forward foreign exchange contracts and interest rate swaps.

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 hedges of highly probable forecast transactions (cash flow hedges).

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 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.

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are 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 the "other gains and losses" line.

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.

(y) Statement of Cash Flows

For the purpose of the statement of cash flows, cash and cash equivalents include cash and bank balances and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

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.

(z) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance of the operating segments and making strategic decisions for the Group, has been identified as the Managing Director.

Adoption of New and Revised Standards and Interpretations

i Standards and Interpretations Effective in the Current Period

The adoption of NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities and the amendments to NZ IAS 27 Separate Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures has resulted in Profruit (2006) Limited being classified as a joint venture rather than as an associate company. The basis of accounting for the company has not changed.

i Standards and Interpretations Effective in the Current Period (continued)

The Group has adopted NZ IFRS 13 Fair Value Measurements for the first time in the current year. NZ IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The fair value measurement requirements of NZ IFRS 13 apply to both financial instrument items and non-financial instrument items for which other NZ IFRS's require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of NZ IFRS 2 Share-based Payment, leasing transactions that are within the scope of NZ IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value.

NZ IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under NZ IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, NZ IFRS 13 includes extensive disclosure requirements.

NZ IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosure required by NZ IFRS 13 for the 2012 comparative period. The 2013 disclosures are set out in notes 19, 20, 21 and 33. Other than the additional disclosures, the application of NZ IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

The adoption of other Standards, Interpretations and Amendments that became effective in the current year has not led to any changes in the Group's accounting policies with measurement or recognition impact on the periods presented in these financial statements.

ii Standards and Interpretations in Issue not yet Adopted

The Group has reviewed all Standards and Interpretations in issue not yet adopted and does not expect these standards to have any material impact on the financial statements of the Company and Group.

	GROUP		COMPANY	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
2 REVENUE				
Revenue from the sale of goods	189,710	154,943	-	-
Revenue from the rendering of services	77,641	68,132	108	51
Interest revenue	533	707	1,003	1,096
Fees and commission	278	217	-	-
Rental revenue	4,648	3,395	-	-
Dividends:				
Other companies	29	25	-	-
	272,839	227,419	1,111	1,147
3 OTHER GAINS AND LOSSES				
Change in fair value of biological assets (note 21)	16	(2,614)	-	-
Change in fair value of investment properties (note 20)	931	(1,143)	-	-
Gain (loss) on disposal of property, plant & equipment	604	1,185	(5)	(38)
Hedge ineffectiveness on cash flow hedges	(615)	(63)	165	46
Net foreign exchange gains	1,377	3,776	-	-
Net insurance proceeds	757	3,373	-	-
	3,070	4,514	160	8
Disclosed as:				
Other Gains	3,685	8,334	165	46
Other Losses	(615)	(3,820)	(5)	(38)
	3,070	4,514	160	8

	GROUP	
	2013	2012
	$'000	$'000

4 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2013 $'000	2012 $'000
Share of profits for the year:		
Associate company	490	-
Joint venture	1,077	1,467
	1,567	1,467
Carrying value at end of the year:		
Associate company	2,000	2,000
Joint venture	3,052	3,475
	5,052	5,475

	2013 $'000	2012 $'000
ASSOCIATE COMPANY		
Share of profit before taxation	702	-
Share of income tax	(212)	-
Share of Net Profit for the Year and Total Comprehensive Income	490	-
Carrying value at beginning of the year	2,000	-
Dividend from associate company	(490)	-
Acquisition of interest in associate company	-	2,000
INVESTMENT IN ASSOCIATE COMPANY	2,000	2,000

The Scales Corporation Limited Group share of capital commitments of associate companies existing at 31 December 2013 is $nil (31 December 2012 $nil).

The Scales Corporation Limited Group share of contingent liabilities of associate companies existing at 31 December 2013 is $nil (31 December 2012 $nil).

	Principal Activity	Country of Incorporation	Holding 2013	Holding 2012	Balance Date
Fern Ridge Produce Limited	Fruit & Produce Exporting	New Zealand	50%	50%	31 October

	GROUP 2013 $'000	GROUP 2012 $'000
JOINT VENTURE		
Share of profit before taxation	1,496	2,041
Share of income tax	(419)	(574)
Share of Net Profit for the Year and Total Comprehensive Income	1,077	1,467
Carrying value at beginning of the year	3,475	3,353
Dividend paid	(1,500)	-
Advances repaid by joint venture	-	(1,345)
INVESTMENT IN JOINT VENTURE	3,052	3,475

The Scales Corporation Limited Group share of capital commitments of joint ventures existing at 31 December 2013 is $nil (31 December 2012 $nil).

The Scales Corporation Limited Group share of contingent liabilities of joint ventures existing at 31 December 2013 is $nil (31 December 2012 $nil) and its share of the guarantee of bank loan facilities is $564 (2012 $672).

	Principal Activity	Country of Incorporation	Holding 2013	Holding 2012	Balance Date
Profruit (2006) Limited	Juice Production & Sales	New Zealand	50%	50%	31 December

	GROUP		COMPANY	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
5 AUDITOR'S REMUNERATION				
Audit of the financial statements	103	100	20	25
Audit of solvency certificate for Selacs Insurance Limited	5	5	-	-
Tax compliance services	43	43	43	43
Tax services re proposed demerger (refer note 37)	130	-	130	-
	281	148	193	68
6 EMPLOYEE BENEFITS EXPENSE				
Post employment benefits - defined contribution plans	879	583	45	65
Salaries, wages and related benefits	48,859	43,410	1,045	1,650
	49,738	43,993	1,090	1,715
7 FINANCE COSTS				
Interest on loans	6,504	7,212	6,504	7,212
Other interest	101	630	228	679
Bank facility fees	609	369	609	369
	7,214	8,211	7,341	8,260
8 TAXATION				
(a) Income Tax Recognised in Profit				
Income tax expense comprises:				
Current tax expense	7,152	-	(2,969)	-
Adjustments recognised in the current year in relation to the current tax of prior years	-	115	-	1
Deferred tax expense relating to the origination and reversal of temporary differences	477	2,818	669	1,005
Total income tax expense recognised in profit	7,629	2,933	(2,300)	1,006
The prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in the financial statements as follows:				
Profit (loss) from operations	28,067	16,557	(8,610)	(10,185)
Income tax expense calculated at 28%	7,859	4,636	(2,411)	(2,852)
Non-assessable income	(829)	(1,473)	-	-
Non-deductible expenses	572	755	95	60
Taxation losses utilised	-	(661)	-	3,653
Under (over) provision of income tax in previous year - current tax	-	115	-	1
Under (over) provision of income tax in previous year - deferred tax	27	(439)	16	144
	7,629	2,933	(2,300)	1,006
The tax rate used in the above reconciliation is the corporate tax rate of 28% payable by New Zealand companies under New Zealand tax law.				
(b) Current Tax (Asset) Liability				
Balance at beginning of the year	(2)	(116)	(2)	(133)
Current taxation expense	7,152	115	(2,969)	1
Taxation (paid) refund	(5,050)	(1)	(5,010)	130
Balance at end of the year	2,100	(2)	(7,981)	(2)

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000

8 TAXATION (continued)

(c) Deferred Tax Balances

Net deferred tax liabilities (assets) comprise:				
Temporary differences	17,458	15,067	153	(1,744)

	Opening balance	Charged to income	Charged to other comprehensive income	Closing balance
Taxable and deductible temporary differences arise from the following:				
31 December 2013		GROUP		
Gross deferred tax liabilities:				
Trade and other receivables	45	(45)	-	-
Biological assets	5,150	(28)	-	5,122
Investment properties	141	154	-	295
Other intangible assets	22	(11)	-	11
Property, plant and equipment	11,009	(207)	1,573	12,375
	16,367	(137)	1,573	17,803
Gross deferred tax assets:				
Trade and other payables	401	109	-	510
Other financial assets and liabilities	176	-	(341)	(165)
Tax losses carried forward	723	(723)	-	-
	1,300	(614)	(341)	345
Net deferred tax liability	15,067	477	1,914	17,458
31 December 2012		GROUP		
Gross deferred tax liabilities:				
Trade and other receivables	131	(86)	-	45
Biological assets	4,697	453	-	5,150
Investment properties	946	(805)	-	141
Other intangible assets	31	(9)	-	22
Property, plant and equipment	12,141	(1,132)	-	11,009
	17,946	(1,579)	-	16,367
Gross deferred tax assets:				
Trade and other payables	525	(124)	-	401
Other financial assets and liabilities	1,039	-	(863)	176
Tax losses carried forward	4,996	(4,273)	-	723
	6,560	(4,397)	(863)	1,300
Net deferred tax liability	11,386	2,818	863	15,067
31 December 2013		COMPANY		
Gross deferred tax liabilities (assets):				
Trade and other payables	(28)	(54)	-	(82)
Other financial liabilities	(992)	-	1,227	235
Tax losses carried forward	(724)	724	-	-
Net deferred tax liability	(1,744)	670	1,227	153

	Opening balance	Charged to income	Charged to other comprehensive income	Closing balance
	$'000	$'000	$'000	$'000

8 TAXATION (continued)

31 December 2012			**COMPANY**	
Gross deferred tax liabilities (assets):				
Trade and other payables	(45)	17	-	(28)
Other financial liabilities	(1,230)	-	238	(992)
Tax losses carried forward	(1,712)	988	-	(724)
Net deferred tax (asset)	(2,987)	1,005	238	(1,744)

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
(d) Imputation Credit Account Balances				
Balance at end of the year	4,927	153	4,927	153

The Scales Corporation Limited consolidated tax group for income tax includes Scales Corporation Limited and all New Zealand registered subsidiary companies other than George H Investments Limited, Scales Employees Limited, Scales Property Development Limited and Tiger Ventures NZ Limited.

9 SHARE CAPITAL

	GROUP AND COMPANY			
	2013		2012	
	Number	Value $'000	Number	Value $'000
(a) Ordinary Capital				
Balance at beginning of the year	40,538,340	63,656	27,687,502	38,067
Shares repurchased and cancelled on 2 August 2013	(1,124,338)	(2,586)	-	-
Employee share options exercised during the year	450,000	900	-	-
Shares issued on 21 May 2012 pursuant to the Rights Issue	-	-	12,585,228	25,171
Shares issued on 12 October 2012	-	-	265,610	531
Share buyback / issue costs	-	(13)	-	(113)
Balance at end of the year	39,864,002	61,957	40,538,340	63,656
(b) Available Subscribed Capital				
Balance at beginning of the year		67,688		42,099
Shares repurchased and cancelled during the year		(2,599)		-
Shares issued during the year		900		25,589
Balance at end of the year		65,989		67,688

The Available Subscribed Capital represents the amount of the shareholders equity that is available to be returned to shareholders on a tax-free basis.

Changes to the Companies Act 1993 abolished the authorised capital and par value concept in relation to share capital from 1 July 1994. Therefore the Company does not have a limited amount of authorised capital and issued shares do not have a par value. All ordinary shares are fully paid, have equal voting rights and share equally in dividends and net assets on winding up.

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
10 PROPERTIES REVALUATION RESERVE				
Balance at beginning of the year	22,849	22,905	-	-
Increase on revaluation of land and buildings	7,098	-	-	-
Deferred tax on revaluation (note 8)	(1,573)	-	-	-
Transfer to retained earnings on disposal	(966)	(56)	-	-
Balance at end of the year	27,408	22,849	-	-

The properties revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained earnings.

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
11 HEDGING RESERVE				
Balance at beginning of the year	(454)	(2,671)	(2,552)	(3,162)
Gain recognised on cash flow hedges	1,218	3,080	4,381	848
Income tax related to gains recognised as equity (note 8)	(341)	(863)	(1,227)	(238)
Balance at end of the year	423	(454)	602	(2,552)

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges.

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
12 RETAINED EARNINGS (LOSSES)				
Balance at beginning of the year	71,022	59,993	(34,180)	(22,989)
Profit (loss) for the year	20,438	13,624	(6,310)	(11,191)
Other comprehensive income (loss)	1,206	(2,651)	-	-
Transfer from properties revaluation reserve	966	56	-	-
Dividends paid	(8,107)	-	(8,107)	-
Balance at end of the year	85,525	71,022	(48,597)	(34,180)

Included in retained earnings is the cumulative loss on shares in listed company of $1,445 (2012 $2,651), presented as investment in equity instrument at fair value through other comprehensive income.

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
13 TRADE AND OTHER RECEIVABLES				
Trade receivables	10,274	8,078	-	-
Other receivables	550	790	9	2
Owing by associate companies	123	-	-	-
Owing by subsidiary companies	-	-	88	390
Goods and services tax	1,964	1,023	1,940	990
	12,911	9,891	2,037	1,382

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000

13 TRADE AND OTHER RECEIVABLES (continued)

The average credit period on the sale of goods or services is one month. Amounts still outstanding after this period are considered to be 'past due'.

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

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
One month	1,768	1,724	-	-
Two months	482	157	-	-
More than two months	618	448	-	-
	2,868	2,329	-	-

14 OTHER CURRENT FINANCIAL ASSETS

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
At fair value:				
Forward foreign currency exchange contracts	977	2,763	-	-
Interest rate swap contracts	23	-	23	-
At amortised cost:				
Advances to other entities	1,058	-	-	-
	2,058	2,763	23	-

15 INVENTORIES

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Petfood	8,609	8,804	-	-
Other	2,487	2,271	-	-
	11,096	11,075	-	-

16 OTHER CURRENT ASSETS

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Prepayments	2,216	2,442	13	70

17 OTHER NON-CURRENT FINANCIAL ASSETS

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
New Zealand Government Stock	-	503	-	-
Forward foreign currency exchange contracts	540	928	-	-
Interest rate swap contracts	1,134	-	1,134	-
Shares in listed company	21,105	19,899	-	-
Shares in subsidiary companies (Note 18)	-	-	26,911	26,911
Shares in other companies	128	105	-	-
Non-interest bearing loans advanced to subsidiary companies	-	-	58,386	94,424
Employee loans (note 36)	1,550	1,250	1,550	1,250
	24,457	22,685	87,981	122,585

Loans advanced to subsidiary companies are on demand, but payment is not expected within 12 months.

18 SHARES IN SUBSIDIARY COMPANIES

The Consolidated Financial Statements incorporate the following subsidiary companies :

Subsidiary Companies	Principal Activity	Country of Incorporation	Holding 2013	Holding 2012	Balance Date
Cashreal Properties Limited	Non trading company	New Zealand	0%	100%	31 December
George H Investments Limited	Non trading company	New Zealand	100%	0%	31 December
Geo. H. Scales Limited	Non trading company	New Zealand	100%	100%	31 December
Liqueo Bulk Storage Limited	Trading company	New Zealand	100%	100%	31 December
Meateor Foods Australia Pty Limited	Trading company	Australia	100%	0%	31 December
Meateor Foods Limited	Trading company	New Zealand	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
Polarcold Stores Limited	Coldstore operator	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 Property Development Limited	Property development	New Zealand	100%	100%	31 December
Selacs Insurance Limited	Insurance company	New Zealand	100%	100%	31 December
Silverstream Industrial Park Limited	Trading company	New Zealand	100%	100%	31 December
Tiger Ventures NZ Limited	Holding company	New Zealand	100%	100%	31 December
Tomoana Trustee Company Limited	Non trading company	New Zealand	0%	100%	31 December
Whakatu Coldstores Limited	Coldstore operator	New Zealand	100%	100%	31 December
Whakatu Processing Aust Pty Limited	Non trading company	Australia	0%	100%	31 December
Whakatu Processing Pty Limited	Non trading company	Australia	0%	100%	31 December
Whakatu Property Management Limited	Trading company	New Zealand	100%	100%	31 December

Cashreal Properties Limited, Tomoana Trustee Company Limited, Whakatu Processing Aust Pty Limited and Whakatu Processing Pty Limited were liquidated or struck off during the year.

19 PROPERTY, PLANT & EQUIPMENT

	Land and Buildings at fair value $'000	Plant and Equipment at cost $'000	Capital Work in Progress at cost $'000	Office Equipment & Motor Vehicles at cost $'000	Total $'000
			GROUP		
Gross carrying amount					
Balance 1 January 2012	111,217	74,840	1,749	15,520	203,326
Additions	1,148	3,380	7,316	1,364	13,208
Disposals	(4,149)	(358)	-	(1,174)	(5,681)
Balance 31 December 2012	108,216	77,862	9,065	15,710	210,853
Additions	3,508	13,055	(6,975)	2,799	12,387
Disposals	(1,703)	(4,477)	-	(3,337)	(9,517)
Impairment	(2,043)	-	-	-	(2,043)
Revaluation	2,419	-	-	-	2,419
Balance 31 December 2013	110,397	86,440	2,090	15,172	214,099

	Land and Buildings at fair value	Plant and Equipment at cost	Capital Work in Progress at cost	Office Equipment & Motor Vehicles at cost	Total
	$'000	$'000	$'000	$'000	$'000
			GROUP		

19 PROPERTY, PLANT & EQUIPMENT (continued)

Accumulated depreciation and impairment					
Balance 1 January 2012	-	46,108	-	12,066	58,174
Depreciation expense	2,273	4,526	-	1,062	7,861
Disposals	-	(279)	-	(872)	(1,151)
Balance 31 December 2012	2,273	50,355	-	12,256	64,884
Depreciation expense	2,406	4,885	-	1,168	8,459
Disposals	-	(3,543)	-	(3,126)	(6,669)
Revaluation	(4,679)	-	-	-	(4,679)
Balance 31 December 2013	-	51,697	-	10,298	61,995
Net book value					
As at 31 December 2012	105,943	27,507	9,065	3,454	145,969
As at 31 December 2013	110,397	34,743	2,090	4,874	152,104

	COMPANY	
	2013	2012
	$'000	$'000
Office Equipment and Motor Vehicles:		
Gross carrying amount		
Balance at beginning of the year	236	838
Additions	34	18
Disposals	(89)	(620)
Balance at end of the year	181	236
Accumulated depreciation and impairment		
Balance at beginning of the year	180	609
Depreciation expense	22	35
Disposals	(73)	(464)
Balance at end of the year	129	180
Net book value	52	56

Land and Buildings carried at Fair Value

Land and buildings shown at valuation were valued at fair value as at 31 December 2013 by independent registered valuers Logan Stone Limited ($34,704), Macpherson Valuation Limited ($6,166) and Rawcliffe & Co Limited ($69,527). The valuations, which conform to the New Zealand Property Institute Practice Standard 3 - Valuations for Financial Reporting Purposes, were arrived at by reference to market evidence of transaction prices for similar properties.

The impairment of land and buildings relates mainly to additional costs in upgrading buildings at the same time as a major plant upgrade was commissioned. The increased costs have not been reflected in the market based rental.

Details of the Group's land and buildings and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Land and buildings	-	110,397	-	110,397

There were no transfers between Levels 1, 2 and 3 during the year.

The carrying amount of land and buildings had it been recognised under the cost model is $77,822 (31 December 2012 $79,756).

19 PROPERTY, PLANT & EQUIPMENT (continued)

Impairment Review

Plant and equipment is carried at cost less accumulated depreciation.

In accordance with NZ IAS 36, the Group has undertaken a review to determine whether the carrying amount of any items of plant and equipment might be impaired. Based on evidence from asset acquisitions and disposals, the Group does not consider that any such carrying values are materially impaired at 31 December 2013 (31 December 2012 $nil).

	GROUP	
	2013 $'000	2012 $'000
20 INVESTMENT PROPERTY		
At fair value:		
Balance at beginning of the year	25,827	33,360
Additions through subsequent expenditure	3,745	2,993
Disposals	(6,044)	(7,183)
Net gain (loss) from fair value adjustment (note 3)	931	(1,143)
Transfer to property held for sale	(2,125)	(2,200)
Balance at end of the year	22,334	25,827
Rental income	2,725	3,227
Operating expenses	1,181	1,279

The fair value of the Group's investment properties at 31 December 2013 has been arrived at on the basis of valuations carried out by Macpherson Valuation Limited and Rawcliffe & Co Limited, independent valuers that are not related to the Group. Macpherson Valuation Limited and Rawcliffe & Co Limited are members of the Institute of Valuers of New Zealand, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuations, which conform to the New Zealand Property Institute Practice Standard 3 - Valuations for Financial Reporting Purposes, were arrived at by reference to market evidence of transaction prices for similar properties.

Details of the Group's investment property and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investment property	-	22,334	-	22,334

There were no transfers between Levels 1, 2 and 3 during the year.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Property held for sale	2,125	-	-	2,125

There were no transfers between Levels 1, 2 and 3 during the year.

The fair value of property held for sale is based on the conditional sale and purchase agreements.

All of the Group's investment property is held under freehold interests.

	GROUP	
	2013 $'000	2012 $'000
21 BIOLOGICAL ASSETS		
Non-current		
Balance at beginning of the year	25,879	23,372
Development expenditure	13,389	14,431
Decrease due to harvest	(12,431)	(9,310)
Gain (loss) arising from changes in fair value less estimated sale costs (note 3)	16	(2,614)
Balance at end of the year	26,853	25,879

21 BIOLOGICAL ASSETS (continued)

During the year, it was determined that all biological assets were to be classified as non current assets. This has led to a reclassification of prior year balances to record the existing crop as non-current.

The biological assets consist of apple trees with the following planting profile:

Varieties:	Total Hectares Planted
Royal Gala	170
Braeburn	140
Pacific Queen	123
Jazz	78
Fuji	77
Pink Lady	62
Pacific Rose	22
Granny Smith	14
Other	19
	705

Valuation:

The valuation of the biological assets include the fair value of the unharvested crop. This assessment was undertaken by management and represents development costs during the current growing cycle which are determined to approximate fair value less estimated point-of-sale costs of the unharvested crop on the trees at the reporting date. There is significant uncertainty regarding the value of semi-developed apple crops, however the estimation has referenced to the estimated volume of fruit that will be produced and estimated market prices and harvesting and processing costs.

The Group's apple orchards, being biological assets 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 2013. The market valuations completed by Boyd Gross were based on a comparison of sales of other orchards adjusted to reflect the location, plantings, age and varieties of trees and productive capabilities of the orchards and a DCF analysis of forecast income streams and costs.

The significant unobservable inputs, based on district averages, for the biological asset valuations included in the valuer's report are the production levels 1,905 - 2,224 gross tray carton equivalent (tce) (2012; 1,781 - 2,201 gross tce), orchard gate returns $21.11 - $31.49 per tce (2012; $18.30 - $30.00), orchard costs $12.00 - $17.50 per tce (2012; $17.00 - $23.00) and discount rate 20.9% - 24.9% (2012; 15% - 24%). 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.

Details of the Group's biological assets and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Biological assets	-	-	26,853	26,853

There were no transfers between Levels 1, 2 and 3 during the year.

Financial 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 forward contracts and building close working relationships with key customers.

	GROUP	
	2013	2012
	$'000	$'000

22 GOODWILL

Gross Carrying Amount		
Balance at beginning and end of the year	5,319	5,319

Goodwill has been allocated for impairment testing purposes to the cash-generating units listed below which represent the lowest level at which the Directors monitor goodwill.

Liqueo Bulk Storage Limited	1,989	1,989
Mr Apple New Zealand Limited	3,330	3,330
	5,319	5,319

As at 31 December 2013, the Directors have determined that there is no impairment of goodwill associated with Liqueo Bulk Storage Limited and Mr Apple New Zealand Limited.

The recoverable amounts (i.e. higher of value in use and fair value less costs to sell) of those units are determined on the basis of value in use calculations. The Directors have determined that the recoverable amount calculations are most sensitive to maintaining gross margins during a period of fluctuating market prices for pipfruit and cost increases driven by movements in foreign currency and cost inflation pressures during the forecast period.

The value in use calculation uses cash flow projections based on financial budgets approved by Directors covering a five year period. Annual growth rates reflect current historical growth rates; EBITDA returns based on current annual returns adjusted for long term expectations; capital expenditure based on five year capital replacement programmes; and pre tax discount rates of 10% (31 December 2012 10%) have been applied to these projections. Cash flows beyond the five year period have been extrapolated using a steady 2% (31 December 2012 2%) growth rate. The Directors also believe that any reasonable possible change in the key assumptions would not cause the carrying amount of any of the cash generating units to exceed their recoverable amount.

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000

23 OTHER INTANGIBLE ASSETS - COMPUTER SOFTWARE

Gross Carrying Amount				
Balance at beginning of the year	7,268	6,442	381	372
Additions	1,017	998	58	9
Disposals	(2,482)	(172)	(46)	-
Balance at end of the year	5,803	7,268	393	381
Accumulated amortisation and impairment				
Balance at beginning of the year	5,898	5,635	317	253
Amortisation expense	696	435	46	64
Disposals	(2,463)	(172)	(45)	-
Balance at end of the year	4,131	5,898	318	317
Net book value	1,672	1,370	75	64

Additions during the year include capital works in progress of $nil (31 December 2012 $258).

	GROUP		COMPANY	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
24 TRADE AND OTHER PAYABLES				
Trade payables	9,991	7,636	148	211
Accruals	3,332	4,871	361	514
Employee entitlements	2,200	1,904	317	239
Owing to group companies	-	-	17	-
	15,523	14,411	843	964

25 BORROWINGS

Current:				
Bank overdrafts	-	656	-	1,934
Bank loans	-	9,450	-	9,450
Other loans (unsecured)	-	916	-	-
Finance leases	-	2	-	-
	-	11,024	-	11,384
Non Current:				
Bank loans	60,000	59,632	60,000	59,632
	60,000	59,632	60,000	59,632

The group signed Multi-Option Facility Agreements with Rabobank and Westpac New Zealand Limited on 22 March 2013. The total facility is $102,000. At 31 December 2013 the undrawn amount under these facilities was $36,914 (2012 $36,500). The floating interest rate is 4.88% and the next facility roll-over date is 16 December 2015.

The bank facilities are secured by a registered first and exclusive general security agreement and mortgages over all Group land and buildings.

	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
26 OTHER FINANCIAL LIABILITIES				
Current financial liabilities at fair value:				
Forward foreign currency exchange contracts	559	195	-	-
Interest rate swap contracts and forward rate agreements	40	894	40	894
Current financial liabilities at amortised cost:				
Non-interest bearing loans advanced from subsidiary companies	-	-	23,211	23,323
	599	1,089	23,251	24,217
Non-current financial liabilities at fair value:				
Forward foreign currency exchange contracts	1,419	-	-	-
Interest rate swap contracts and forward rate agreements	246	2,782	245	2,782
	1,665	2,782	245	2,782

	GROUP		COMPANY	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000

27 NET CASH GENERATED BY OPERATING ACTIVITIES

	GROUP 2013 $'000	GROUP 2012 $'000	COMPANY 2013 $'000	COMPANY 2012 $'000
Reconciliation of profit (loss) for the year to net cash generated by (used in) operating activities:				
Profit (loss) for the year	20,438	13,624	(6,310)	(11,191)
Non-cash items:				
Amortisation of other intangible assets	696	435	46	64
Change in fair value of biological assets	(16)	2,614	-	-
Change in fair value of derivative financial instruments	615	63	(165)	(46)
Change in fair value of investment property	(931)	1,143	-	-
Deferred tax	477	2,818	670	1,005
Depreciation	8,459	7,861	22	35
Impairment of non-current assets	2,043	-	-	-
Share of equity accounted results	(1,567)	(1,467)	-	-
Other	15	8	-	-
Items classified as investing and financing activities:				
Dividends received from equity accounted companies	1,990	-	-	-
Purchase of shares in associate company (2012 shares in listed company)	1,782	13,236	-	-
(Gain) loss on disposal of property, plant and equipment	(604)	(1,185)	5	38
Tax and GST paid for subsidiary companies	-	-	-	263
Changes in net assets and liabilities:				
Trade and other receivables	(3,020)	3,902	(654)	(231)
Inventories	(21)	(69)	-	-
Other current assets	227	(1,640)	56	(69)
Biological assets - unharvested crop	116	(3,121)	-	-
Trade and other payables	1,113	(12,896)	(121)	(42)
Current tax	2,102	114	(7,980)	131
NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES	33,914	25,440	(14,431)	(10,043)

28 SEGMENT INFORMATION

The operating segments have been determined based on the reports reviewed by the chief operating decision-maker, being the Managing Director.

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.

Operating segments:

The Group comprises the following main operating segments:

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

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

Investments: investment properties and listed shares. George H Investments Limited, Scales Property Development Limited, Silverstream Industrial Park Limited, Tiger Ventures NZ Limited and Whakatu Property Management Limited.

Storage & Logistics: Liqueo Bulk Storage Limited, Polarcold Stores Limited, Scales Logistics Limited and Whakatu Coldstores Limited.

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

28 SEGMENT INFORMATION (continued)

	Food Ingredients $'000	Horticulture $'000	Investments $'000	Storage & Logistics $'000	Other $'000	Eliminations $'000	Total $'000
2013							
Total segment revenue	33,183	172,880	3,392	92,004	4,260	-	305,719
Inter-segment revenue	(12)	-	(1,195)	(27,587)	(4,086)	-	(32,880)
Revenue from external customers	33,171	172,880	2,197	64,417	174	-	272,839
Interest revenue	-	493	1	25	14	-	533
Gain (loss) on sale of non-current assets	(29)	14	702	(78)	(5)	-	604
Share of profits of entities accounted for using the equity method	1,077	490	-	-	-	-	1,567
EBITDA	4,707	25,529	1,679	13,863	(177)	(1,165)	44,436
Amortisation expense	29	247	4	370	46	-	696
Depreciation expense	614	3,568	313	3,943	21	-	8,459
Finance costs	-	945	-	56	7,378	(1,165)	7,214
Segment profit (loss) before income tax	4,064	20,769	1,362	9,495	(7,623)	-	28,067
Segment assets	27,319	105,924	53,958	104,806	64,258	(83,607)	272,658
Segment liabilities	3,991	26,936	32,530	46,200	71,295	(83,607)	97,345
Segment carrying value of investments accounted for using the equity method	3,052	2,000	-	-	-	-	5,052
Segment acquisition of property, plant and equipment and other intangible assets	66	8,502	1,470	3,274	92	-	13,404
Fair value adjustments and impairment losses included in EBITDA	(91)	(1,919)	(1,112)	-	165	-	(2,957)
2012							
Total segment revenue	32,628	132,424	9,906	77,614	4,148	-	256,720
Inter-segment revenue	-	-	(1,128)	(24,251)	(3,922)	-	(29,301)
Revenue from external customers	32,628	132,424	8,778	53,363	226	-	227,419
Interest revenue	-	624	1	3	79	-	707
Gain (loss) on sale of non-current assets	-	(75)	1,256	42	(38)	-	1,185
Share of profits of entities accounted for using the equity method	1,467	-	-	-	-	-	1,467
EBITDA	5,467	10,337	5,656	14,028	(1,190)	(1,233)	33,065
Amortisation expense	18	240	4	109	64	-	435
Depreciation expense	590	3,178	258	3,800	35	-	7,861
Finance costs	-	1,095	16	-	8,333	(1,233)	8,211
Segment profit (loss) before income tax	4,859	5,823	5,377	10,119	(9,621)	-	16,557
Segment assets	24,663	94,574	70,565	95,012	86,847	(110,582)	261,079
Segment liabilities	2,867	32,981	40,528	45,782	92,429	(110,582)	104,005
Segment carrying value of investments accounted for using the equity method	3,475	2,000	-	-	-	-	5,475
Segment acquisition of property, plant and equipment and other intangible assets	3,829	5,104	1,662	3,584	27	-	14,206
Fair value adjustments and impairment losses included in EBITDA	(146)	(2,583)	(1,143)	6	46	-	(3,820)

	GROUP 2013 $'000	GROUP 2012 $'000

28 SEGMENT INFORMATION (continued)

The total revenues from external customers in New Zealand and other countries are:

	GROUP 2013 $'000	GROUP 2012 $'000
New Zealand	93,908	85,805
Asia	40,567	29,576
Europe	77,861	54,204
North America	39,477	40,523
Other	21,026	17,311
	272,839	227,419

29 CAPITAL COMMITMENTS

	GROUP 2013 $'000	GROUP 2012 $'000	COMPANY 2013 $'000	COMPANY 2012 $'000
Commitments entered into as at balance date were	318	371	-	-

30 OPERATING LEASE COMMITMENTS

The Group as Lessee

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

	GROUP 2013 $'000	GROUP 2012 $'000	COMPANY 2013 $'000	COMPANY 2012 $'000
Non-cancellable operating lease commitments:				
Not later than one year	6,970	6,046	19	14
Later than one year and not later than five years	23,662	17,213	57	6
Later than five years	17,860	16,477	-	-

The Group as Lessor

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

	GROUP 2013 $'000	GROUP 2012 $'000	COMPANY 2013 $'000	COMPANY 2012 $'000
Non-cancellable operating lease receivables:				
Not later than one year	2,271	2,514	-	-
Later than one year and not later than five years	6,557	6,473	-	-
Later than five years	2,750	4,245	-	-

31 CONTINGENT LIABILITIES

	GROUP 2013 $'000	GROUP 2012 $'000	COMPANY 2013 $'000	COMPANY 2012 $'000
Guarantee of joint venture bank loan facility	564	672	-	-

Scales Corporation Limited and its subsidiaries are parties to a registered general security agreement and an interlocking guarantee in relation to borrowings by Group companies (note 25).

	GROUP		COMPANY	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
32 RELATED PARTY DISCLOSURES				
The holding company is Direct Capital Investments Limited which holds 84.2105% (2012 82.8097%) of the ordinary shares.				
(a) Transactions with Related Parties				
Mr Foote is a director and shareholder in New Zealand Cold Storage Limited.				
Mr Harris is a director and shareholder in Hellers Limited				
Mr Mayson is a director of Ziwipeak Limited				
Rent paid to New Zealand Cold Storage Limited	293	245	-	-
Cold storage and related revenue received from Hellers Limited	668	703	-	-
Processing, cold storage and logistics revenue received from Ziwipeak Limited	694	202	-	-
Trade receivables at balance date	71	-	-	-
(b) Transactions between the Company and Subsidiaries				
Interest income			945	1,090
Rental income			-	37
Interest expense			164	143
Insurance premium expense			86	82
Loans from subsidiary companies			23,210	23,323
Loans to subsidiary companies			58,386	94,424
(c) Key Management Personnel Remuneration				
The compensation of the directors and executives, being the key management personnel of the Group, is as follows:				
Short-term employee benefits	1,962	2,571	1,962	2,571
Post-employment benefits	85	90	85	90
	2,047	2,661	2,047	2,661
(d) Transactions with Equity Accounted Entities				
Revenue from sale of goods	1,614	1,429	-	-
Revenue from services	1,675	451	-	-
Interest income	7	48	-	-
Dividends received	1,990	-	-	-
Trade receivables at balance date	123	-	-	-

33 FINANCIAL INSTRUMENTS

(a) 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.

The Multi-Option Facility Agreements with the Group's banks require 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 $125,000. 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.

(b) Financial Risk Management Objectives

The Group's activities expose it primarily to interest rate, foreign currency and credit risk. The Group may, in accordance with policies approved by the Board of Directors, enter into a variety of derivative financial instruments to manage its exposure to these risks.

33 FINANCIAL INSTRUMENTS (continued)

(c) Interest Rate Risk Management

The Group is exposed to interest rate risk as it both invests in interest bearing instruments and borrows funds at fixed or floating interest rates. Management monitors the level of interest rates on an ongoing basis and may use interest rate swaps to manage interest rate risk (refer note 33(d)).

At balance date financial assets and liabilities are subject to interest rate risk as follows:

	2013	2012	Interest Rate Review Period
Finance leases	-	14.37%	Term of lease
Loans and short term borrowings	4.43% - 5.00%	4.52% - 6.93%	30 - 90 days
Government securities	-	4.71%	

(d) 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 enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and 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.

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

Maturity Date	Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2013	2012	2013	2012	2013	2012
	%	%	$'000	$'000	$'000	$'000
Interest rate swap contracts:						
Within one year	4.32		10,000	-	(40)	-
Two to five years	4.98	5.63	20,000	50,000	(219)	(3,478)
After five years	3.72	3.72	20,000	20,000	1,108	(168)
Forward rate agreements:						
Within one year	3.00	2.74	23,000	34,000	23	(17)
Two to five years		2.98	-	15,000	-	(13)
					872	(3,676)

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.

(e) Credit Risk Management

Credit risk 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 and trade and other receivables.The Company also has credit risk on related party advances. The Group performs credit evaluations on trade customers, obtains trade credit insurance as appropriate but generally does not require collateral. The Group continuously monitors the credit quality of its major receivables and does not anticipate non-performance of those customers. Cash and cash equivalents are placed with high credit quality financial institutions.

There is a significant concentration of credit risk with 5 customers who represent 32.78% (2012 four customers who represent 35.77%) 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.

33. FINANCIAL INSTRUMENTS (continued)

(f) 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 Euro, Canadian dollar, Great Britain pound and 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 using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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

	2013		2012	
	Contract Value $'000	Fair Value $'000	Contract Value $'000	Fair Value $'000
Sale commitments forward foreign exchange contracts	107,022	(729)	57,691	2,519
Sale commitments foreign exchange options	38,734	268	31,856	977

These foreign currency instruments, which are all held by subsidiary companies, 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 2014 to 2017 financial years at which stage the amount deferred in equity will be released into profit or loss.

(g) Liquidity Risk Management

The Group manages liquidity risk by maintaining adequate reserves and banking facilities (refer note 25),by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The maturity profile of financial liabilities is disclosed in note 34.

	GROUP		COMPANY	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
(h) Categories of Financial Instruments				
Financial Assets:				
Fair value through profit or loss	128	608	-	-
Derivative instruments in designated hedge accounting relationships	2,674	3,691	1,157	-
Amortised cost	19,980	11,322	62,265	97,056
Fair value through other comprehensive income	21,105	19,899	-	-
	43,887	35,520	63,422	97,056
Financial Liabilities:				
Financial liabilities at amortised cost	75,523	85,067	84,054	95,303
Derivative instruments in designated hedge accounting relationships	2,264	3,871	285	3,676
	77,787	88,938	84,339	98,979

33. FINANCIAL INSTRUMENTS (continued)

(i) Fair Value of the Group's Financial Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation techniques and inputs used).

Financial assets / financial liabilities	Fair value as at 2013 $'000	Fair value as at 2012 $'000	Fair value Hierarchy	Valuation techniques and key inputs	Significant unobservable inputs and their relationship to fair value
Group					
Shares in listed companies	21,105	19,899	Level 1	Quoted bid prices in an active market	N/A
Foreign exchange contracts			Level 2	Discounted cash flow. 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.	N/A
- assets	1,517	3,691			
- liabilities	1,978	195			
New Zealand Government Stock	-	503	Level 1	Quoted bid prices in an active market	N/A
Group and Company					
Net settled interest rate swaps and forward rate agreements			Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rate curves discounted at a rate that reflects the credit risk of various counterparties.	N/A
- assets	1,157	-			
- liabilities	286	3,676			

There were no transfers between levels 1, 2 and 3 in the year.

(j) Fair value of Financial Assets and Financial Liabilities that are not Measured at Fair Value on a Recurring Basis (but fair value disclosures are required)

The directors' consider that the carrying amounts of these financial assets and liabilities recognised in the financial statements approximate their fair value.

(k) Sensitivity Analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign currency and interest rates will have an impact on profit and equity. The shares held in listed company are subject to general market risk and factors specific to that company.

At 31 December 2013 it is estimated that a general increase of one percent in interest rates would decrease the Group's profit after income tax and equity by approximately $438 (2012 $464).

It is estimated that a general increase of one cent in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit after income tax by $1,471 (2012 $1,193).

It is estimated that an increase of 5 cents per share in the market price of the shares in listed company would increase the Group's other comprehensive income and equity by approximately $603 (2012 $603).

A decrease in both interest and exchange rates and in the market price of the shares in listed company would have the opposite impact on profit and equity to that described above.

34 MATURITY PROFILE OF FINANCIAL LIABILITIES

The following tables detail the Group and Company'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
		GROUP		
2013				
Trade and other payables	15,523	-	-	15,523
Borrowings	732	2,196	62,928	65,856
Interest rate swaps and forward rate agreements	130	317	1,559	2,006
Guarantee of associate company loan facility	-	-	564	564
	16,385	2,513	65,051	83,949
2012				
Trade and other payables	14,411	-	-	14,411
Borrowings	1,532	12,705	66,349	80,586
Interest rate swaps and forward rate agreements	308	948	3,490	4,746
Guarantee of associate company loan facility	-	-	672	672
	16,251	13,653	70,511	100,415
		COMPANY		
2013				
Trade and other payables	843	-	-	843
Other financial liabilities	23,210	-	-	23,210
Borrowings	732	2,196	62,928	65,856
Interest rate swaps and forward rate agreements	130	317	1,559	2,006
	24,915	2,513	64,487	91,915
2012				
Trade and other payables	964	-	-	964
Other financial liabilities	23,323	-	-	23,323
Borrowings	980	12,338	66,349	79,667
Interest rate swaps	308	948	3,490	4,746
	25,575	13,286	69,839	108,700

	GROUP 2013 $'000	2012 $'000
35. EARNINGS PER SHARE		
Profit for the year - used in the calculation of total earnings per share	20,438	13,624

	Number of Shares 2013	2012
Basic earnings per share		
Weighted average number of ordinary shares	40,244,866	35,401,065
Earnings per share (cents)	50.8	38.5
Diluted earnings per share		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	40,244,866	35,401,065
Shares deemed to be issued for no consideration in respect of employee options	22,126	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	40,266,992	35,401,065
Diluted earnings per share (cents)	50.8	38.5

36 EXECUTIVE SHARE SCHEME

Scales Corporation Limited operates an employee share scheme for certain senior employees to purchase ordinary shares in the Company

Shares held or purchased by the employees and transferred to the Scheme are held by Scales Employees Limited as custodian, and are not transferable while the executive continues as an employee of the Scales Group. At 31 December 2013 the custodian holds 1,775,000 shares (2012 1,325,000 shares) which represent 4.45% (2012 3.27%) of the shares on issue. The custodian undertakes to remit dividends received on the shares to the employee.

The Company provides the employees with loans, of up to 50% of the cost of the shares held in the Scheme, to assist employees' participation. The loans are on an interest-free basis while the recipient remains an employee, otherwise the interest will be charged at 3% above the highest rate of interest charged by the Company's bank on funds advanced or available to be advanced to the Company. The employees' liability under the loan is the lower of the loan balance or the value of their investment in the Scheme at any point of time. The loan is repayable, on a proportionate basis, on the sale or transfer of any of the shares by the employee to an arm's length third party purchaser or a re-purchase of shares or other return of capital by the Company in respect of any of the shares.

Employees in the Scheme on 19 December 2011 were issued with one Option for every two shares they held in the Scheme. The Options may be exercised at any time after two years and on or before the expiry of five years from the date from which the Option is granted. The exercise price will be $2.00 if exercised on or before the expiry of three years from the date the Options were granted; $2.20 per Option after the expiry of three years and on or before the expiry of four years; and $2.40 after the expiry of four years and on or before the expiry of five years. Following the opening of an additional exercise period from 22 April to 17 May 2013, 300,000 options were exercised at $2.00. The Company share price at this time was $2.00. A further 150,000 Options were exercised at $2.00 on 20 December 2013. The weighted average share price at that time was $2.30. There are no Options outstanding at 31 December 2013.

No expense was recognised in respect of the Options or the interest free loans as the amount was determined not to be significant.

37 EVENTS OCCURRING AFTER BALANCE DATE

On 20 February 2014 shareholders resolved unanimously to approve the demerger of George H Investments Limited, including the companies holding the investment assets, from Scales Corporation Limited. The demerger is conditional on receiving a favourable ruling from Inland Revenue.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SCALES CORPORATION LIMITED

Report on the Financial Statements

We have audited the financial statements of Scales Corporation Limited and group on pages 91 to 126, which comprise the consolidated and separate statements of financial position of Scales Corporation Limited, as at 31 December 2013, the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. 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.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in Scales Corporation Limited or any of its subsidiaries.

Opinion

In our opinion, the financial statements on pages 91 to 126:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Scales Corporation Limited and group as at 31 December 2013, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2013:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Scales Corporation Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants
24 March 2014
Christchurch, New Zealand

Deloitte

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20 June 2014

The Directors
Scales Corporation Limited
PO Box 1590
CHRISTCHURCH 8140

Dear Directors

INDEPENDENT AUDITOR'S REPORT

This report is issued in respect of the public offer of ordinary shares in Scales Corporation Limited (the "Company" and "Issuer") in terms of the Prospectus dated 20 June 2014 (the "Prospectus").

This report is made solely to the directors of the Company (the "directors"), in accordance with clause 28 of Schedule 1 to the Securities Regulations 2009 ("Schedule 1"). Our work has been undertaken so that we might state to the directors those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to Section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the directors for this report, or for the opinions we have formed.

Directors' Responsibilities
The directors are responsible for the preparation and presentation of:

A the financial statements as required by clause 23 of Schedule 1. The financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries (the "Group"), on pages 91 to 126, comprise the consolidated and separate statements of financial position as at 31 December 2013, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The directors are responsible to ensure that the financial statements comply with generally accepted accounting practice in New Zealand and give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

B the summary financial statements of the Group for the years ended 30 June 2010 and 2011, the six months ended 31 December 2011 and the years ended 31 December 2012 and 2013 as required by clause 9 of Schedule 1; and

C the prospective financial information of the Group for the years ending 31 December 2014 and 31 December 2015, including the best estimate assumptions on which the prospective financial information is based, as required by clause 11 of Schedule 1.

Auditor's Responsibilities
We are responsible for:

A expressing an independent opinion on the financial statements of the Group as at 31 December 2013, and for the year ended on that date, prepared and presented by the directors, and reporting our opinion in accordance with clause 28(1) of Schedule 1;

B reporting, in accordance with clause 28(1)(h) of Schedule 1, on the amounts included in the summary financial statements for the years ended 30 June 2010 and 2011, the six months ended 31 December 2011 and the years ended 31 December 2012 and 2013; and

C reporting, in accordance with clause 28(2) of Schedule 1, on the prospective financial information for the years ending 31 December 2014 and 31 December 2015.

This report has been prepared for inclusion in the Prospectus for the purpose of meeting the requirements of clause 28 of Schedule 1. We disclaim any assumption of responsibility for reliance on this report or the amounts and disclosures included in the financial statements, the summary financial statements and the prospective financial information for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Prospectus not mentioned in this report.

Independence
When carrying out the audit we followed the independence requirements of the External Reporting Board.

In addition to the audit, our firm provides taxation advice and has been appointed as the investigating accountant and tax due diligence provider in respect of this public offer, which are services compatible with those independence requirements. Other than the audit and these assignments, the firm has no other relationship with or interests in the Company or Group.

Basis of Opinion
We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We have also undertaken procedures to provide reasonable assurance that the amounts in the summary financial statements have been correctly taken from audited financial statements for the years ended 30 June 2010 and 2011, the six months ended 31 December 2011 and the years ended 31 December 2012 and 2013.

In addition, we have undertaken procedures to provide reasonable assurance that the prospective financial information, so far as the accounting policies and calculations are concerned, have been properly compiled on the footing of the assumptions made or adopted by the directors of the Company and are presented on a basis consistent with the accounting policies normally adopted by the Group. The assumptions relate to future events and we are not in a position to, and do not express an opinion on, these assumptions.

Unqualified Opinion
We have obtained all the information and explanations we have required.

In our opinion:

A proper accounting records have been kept by the Group as far as appears from our examination of those records; and

B the financial statements on pages 91 to 126 that are provided pursuant to clause 23 of Schedule 1 and that are audited:

   i. subject to the Securities Regulations 2009, comply with generally accepted accounting practice in New Zealand;

   ii. give a true and fair view of the matters to which they relate;

C the amounts in the summary financial statements, on pages 85 to 90, pursuant to clause 9 of Schedule 1, have been correctly taken from audited financial statements of the Group for the years ended 30 June 2010 and 2011, the six months ended 31 December 2011 and the years ended 31 December 2012 and 2013; and

D the prospective financial information for the years ending 31 December 2014 and 31 December 2015 set out on pages 65 to 71, so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made or adopted by the directors of the Company set out on pages 72 to 84 of this Prospectus and is presented on a basis consistent with the accounting policies normally adopted by the Group as outlined on pages 96 to 105 and on page 72.

Our audit of the financial statements of the Group as at 31 December 2013 and for the year ended on that date was completed on 24 March 2014 and our unmodified opinion was expressed as at that date. We have not performed any procedures in relation to the 31 December 2013 annual financial statements subsequent to 24 March 2014.

Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Accordingly we express no opinion as to whether results consistent with the prospective financial information will be achieved.

We completed our work for the purposes of this report on 20 June 2014 and our unqualified opinion is expressed as at that date.

Yours faithfully
DELOITTE

Deloitte

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20 June 2014

Scales Corporation Limited
Direct Capital IV GP Limited

PO Box 1590
CHRISTCHURCH 8140

INVESTIGATING ACCOUNTANT'S REPORT ON PROSPECTIVE FINANCIAL INFORMATION

Introduction
We have prepared this Investigating Accountant's Report (the "Report") on the prospective financial information of Scales Corporation Limited (the "Company") and its subsidiaries (together, "the Group") for inclusion in the prospectus (the "Prospectus") to be dated on or about 20 June 2014 and to be issued by the Company, in respect of the initial public offering of ordinary shares in the Company.

Expressions defined in the Prospectus have the same meaning in this Report.

Scope
Deloitte has been requested to prepare this Report to cover the Prospective Financial Information as defined below.

The prospective financial information as set out on pages 65 to 84 of the Prospectus comprises:

- Prospective consolidated statements of comprehensive income of the Group for the years ending 31 December 2014 and 31 December 2015;
- Prospective consolidated statements of changes in equity of the Group for the years ending 31 December 2014 and 31 December 2015;
- Prospective consolidated statements of financial position of the Group as at 31 December 2014 and 31 December 2015;
- Prospective consolidated statements of cash flows of the Group for the years ending 31 December 2014 and 31 December 2015; and
- Notes and assumptions to these consolidated prospective statements of comprehensive income, changes in equity, financial position and cash flows,

(hereafter, the "Prospective Financial Information").

The Prospective Financial Information is based on the assumptions as outlined on pages 72 to 84 of the Prospectus.

This Report is made solely to the Company and its directors for inclusion in the Prospectus. To the fullest extent permitted by law and subject to section 61 of the Securities Act 1978 we do not accept or assume responsibility to anyone other than the addressees of this report for the conclusions that we have formed.

Directors' Responsibility for the Prospective Financial Information
The Directors of the Group ("the Directors") have prepared and are responsible for the preparation and presentation of the Prospective Financial Information. The Directors are also responsible for the determination of the best-estimate assumptions as set out on pages 72 to 84 of the Prospectus.

Our Responsibility
Our responsibility is to express a conclusion on the Prospective Financial Information based on our review.

We have conducted an independent review of the Prospective Financial Information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

A The Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Prospective Financial Information;

B The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;

C The Prospective Financial Information is not presented fairly for the periods to which it relates in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Group disclosed on pages 96 to 105, and on page 72 of the Prospectus; and

D The Prospective Financial Information is unreasonable.

The Prospective Financial Information has been prepared by the Directors to provide investors with a guide to the Group's potential future financial performance and position based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Prospective Financial Information. Actual results may vary materially from this Prospective Financial Information and the variation may be materially positive or negative. Accordingly, investors should have regard to the risk factors set out under the heading "What are my risks?" in Section 6 of the Prospectus and the Investment Statement.

Our review of the best estimate assumptions underlying the Prospective Financial Information was conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000, issued by the External Reporting Board, applicable to assurance engagements other than audits or reviews of historical financial information.

Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to form the conclusion set out below.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Prospective Financial Information.

Review conclusion on Prospective Financial Information
Based on our review of the Prospective Financial Information, which is not an audit, and based on our review of the reasonableness of the Directors' best-estimate assumptions giving rise to the Prospective Financial Information, nothing has come to our attention which causes us to believe that:

- The Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Prospective Financial Information;
- The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;
- The Prospective Financial Information is not presented fairly for the periods to which it relates in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Group disclosed on pages 96 to 105, and on page 72 of the Prospectus; and
- The Prospective Financial Information is unreasonable.

The best-estimate assumptions, set out in pages 72 to 84 of the Prospectus, are subject to significant uncertainties and contingencies often outside the control of the Group and the Directors. If events do not occur as assumed, actual results achieved and distributions provided by the Group may vary significantly from the Prospective Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Prospective Financial Information, as future events, by their very nature, are not capable of independent substantiation.

Independence or Disclosure of Interest
Deloitte does not have any interest in the outcome of the Offer other than the preparation of this Report, the provision of tax due diligence and our audit role for which normal professional fees will be received.

We have no relationship with or interests in the Company or Group other than in our capacity as auditor, investigating accountant, and providers of tax due diligence and taxation advice. These services have not impaired our independence as auditor of the Company.

Restriction of Use
This Report has been prepared for inclusion in the Prospectus and should be read in conjunction with the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Prospective Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared.

Yours faithfully
DELOITTE

Paul Munro
Partner

7.8 DESCRIPTION OF SCALES' FINANCING ARRANGEMENTS

Facilities

Rabobank and Westpac provide the following facilities to us:

Facility	Facility Limit	Amount drawn as at the date of this Prospectus	Purpose	Expiry Date
Seasonal Working Capital Facilities	$42 million	$31.5 million	General working capital purposes	30 May 2015
Term Debt Facilities	$60 million	$60 million	Funding of non-current assets	30 June 2017

Security

We, and a number of our subsidiaries, have granted security over all of our assets to Rabobank and Westpac to secure these facilities.

Financial Covenants

The financing arrangements contain the following financial covenants as at the date of this Prospectus:

- ***Borrowing Base Ratio:*** the ratio of total stock and debtors to the outstanding amount of drawings under the working capital facilities is not less than 1.5 times at the end of each month.
- ***Interest Cover Ratio:*** the ratio of EBITDA for the previous twelve months to the net cash interest for the same period is to be at least 3.0 times at the end of each quarter. Note that for both the Interest Cover and Senior Term Debt Leverage Ratios, EBITDA excludes the share of profits of associate company and joint venture and IFRS fair value adjustments and gains or losses on the sale of fixed assets.
- ***Tangible Net Worth:*** tangible Net Worth is to be not less than $100 million at year end.
- ***Senior Term Debt Leverage Ratio:*** the ratio of Total Term Debt to EBITDA for the 12 months ending on each half-year date is not to exceed 2.5.
- ***Charging Group Ratios:*** at all times the total tangible assets of the Charging Group[20] are to be not less than 95% of the total tangible assets of the Consolidated Group.[21]

In respect of each period of twelve months ending on each quarter date, the EBITDA of the Charging Group is to be not less than 95% of the EBITDA the Consolidated Group.

Failure to meet any of these covenants will be an event of default. At the last test date we were fully compliant with these financial covenants and, based on the PFI, we expect to continue to be compliant during the period to which that PFI relates. Rabobank and Westpac may agree to amend, waive or remove these covenants at any time.

Restrictions on making Distributions and Borrowing

We are only permitted to make distributions to Shareholders out of our Net Profit for any financial year and provided no event of default, potential event of default or event of review is existing or will arise from such distribution.

The financing arrangements also contain restrictions on our ability to borrow. We are unable to incur debt with any other lenders, with some minor exceptions.

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[20] The Charging Group includes all Consolidated Group companies with the exception of Meateor Foods Australia Pty Limited and Scales Employees Limited.

[21] The Consolidated Group includes Scales Corporation Limited and all of its subsidiaries.

SECTION 8: TERMS OF THE OFFER

8.1 DETAILS OF THE OFFER

8.1.1 The Offer

The Offer is an offer of ordinary shares in Scales, comprising both existing Shares held by the Selling Shareholders and new Shares to be issued by Scales, which will be acquired by the Offeror and sold under this Offer at the Final Price to members of the public in New Zealand and to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions.

Structure of the Offer
The Offer comprises:

- the Broker Firm Offer which is available only to New Zealand resident clients of NZX Firms who have received an allocation from that NZX Firm;

- the Pohutukawa Offer which is available only to Pohutukawa Investors; and

- the Institutional Offer, which is an invitation to bid for Shares made to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions.

There is no general public offer under which you may subscribe for Shares. Therefore members of the public who are not Pohutukawa Investors and who wish to subscribe for Shares must do so through an NZX Firm with an allocation of Shares.

Size of the Offer
The Offer comprises an offer by the Offeror of:

- $30 million[22] new Shares (being 16.2 million to 18.8 million Shares based on the Indicative Price Range); and

- 59.2 million to 82.0 million existing Shares.[23]

Based on there being $30 million of new Shares issued and the Selling Shareholders selling down the minimum number of Shares at the low end of the Indicative Price Range and the maximum number of Shares at the high end of the Indicative Price Range, the expected gross proceeds from the Offer will be $124.7 million to $181.8 million.

Purpose of the Offer and Use of Proceeds
The purpose of the Offer and intended use of proceeds is as follows:

- to raise $30 million[22] which will be applied to fund issue costs and provide new capital to Scales. Scales intends to use such capital to pay down term debt, providing Scales with flexibility for the future expansion of its business;

- to fund the Offeror to acquire Shares currently held by the Selling Shareholders in order to make those Shares available under the Offer; and

- to list Scales on the NZX Main Board which will provide Scales with additional financial flexibility, a market for Shares and an opportunity for Scales to improve the breadth of its Share register.

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[22] Less the Shares (of up to $3,180,000) to be issued to eligible Scales employees who choose to participate in the Employee Share Ownership Scheme which is described in *Section 5.5: Board, Senior Management and Corporate Governance*.

[23] Indicative only. The actual number of existing Shares to be offered by the Offeror may be within, above or below this range and will only be known at the time of the bookbuild after binding sale commitments have been received by the Offeror in respect of the Shares being sold by the Selling Shareholders.

Pricing of the Offer
An Indicative Price Range of $1.60 to $1.85 has been set for the Offer. The Final Price will be determined by Scales and Direct Capital IV GP Limited (as Promoter) in consultation with the Joint Lead Managers following the conclusion of a "bookbuild" process. A bookbuild is the term used to refer to the process of collating demand for shares at various prices from institutional investors, including NZX Firms, who bid for shares. The information collated in the bookbuild is then used to assist with the determination of the pricing and allocation of shares. NZX Firms bid into the bookbuild in order to obtain a firm allocation which they can then offer to their New Zealand resident clients.

The Final Price is expected to be announced following the bookbuild on or about 4 July 2014 and will be available at www.scalescorporation.co.nz.

In determining the Final Price, consideration may be given to the following factors:

- the level of demand for Shares in the bookbuild at various prices;
- the desire for a successful and consistent aftermarket for the Shares; and
- any other factors that Scales and Direct Capital IV GP Limited consider relevant.

The Final Price will not necessarily be the highest price at which Shares could be sold under the Offer and may be within, above or below the Indicative Price Range.

Discretion Regarding the Offer and Applications
The Issuers reserve the right to withdraw the Offer, or any part of it, at any time before the allotment of Shares. If the Offer, or any part of it, does not proceed, all relevant Application amounts will be refunded (without interest) no later than five Business Days after the announcement of the decision to withdraw the Offer or any part of it.

The Issuers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Shares than applied or bid for. The Issuers also reserve the right to alter the dates of the bookbuild.

The Issuers reserve the right to refuse any Application or to accept an Application in part only, without providing a reason. If the Issuers refuse an Application or accept an Application in part, the relevant Application amount will be refunded no later than five Business Days after the Allotment Date. No interest will be paid on any Application amount that is refunded.

All refunds will be paid in the manner in which you elect any future dividend payments to be paid.

8.1.2 Selling Shareholders

The Offer will enable Direct Capital Investments Limited[24] to sell between 59% and 73% of its Shares[25], certain Management Shareholders collectively holding 4,905,000 Shares issued to them under the Existing Senior Executive LTI Scheme[26] to sell in aggregate up to 30% of those Shares (with no one Management Shareholder selling more than 50% of the Existing Senior Executive LTI Scheme Shares

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[24] Direct Capital Investments Limited holds Shares as custodian for DCIV-PII Delta Partnership (a partnership between Direct Capital IV Limited Partnership and Pohutukawa Delta Limited), Direct Capital IV Investments Limited, Hendry Nominees Limited, Direct Capital IV Delta Limited Partnership, the Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) and Accident Compensation Corporation.

[25] Each of the entities for whom Direct Capital Investments Limited holds Shares as custodian will sell down between 59% and 73% of its Shares. Pohutukawa Delta Limited will sell 66% of its Shares.

[26] This disclosure refers to the Existing Senior Executive LTI Scheme Shares held by the Management Shareholders (which, to the extent not sold under the Offer, will be subject to the escrow arrangements described under the heading "Escrow Arrangements"). Management Shareholders may hold additional Shares but those Shares will not be sold under the Offer and will not be subject to those escrow arrangements.

they hold) and other management and minority Shareholders to sell all or some of their Shares.[27] Shares retained by Direct Capital Investments Limited and the Existing Senior Executive LTI Scheme Shares retained by Management Shareholders will be subject to the escrow arrangements described under the heading "Escrow Arrangements" below.

Shareholdings

The ownership of Scales prior to the Offer and upon completion of the Offer (following allotment of the Shares) is illustrated in the table below based on the Indicative Price Range and the range of Shares that the Selling Shareholders may elect to sell down.

	Prior to the Offer		Following completion of the Offer	
	Shares	%	Shares	%
Direct Capital Investments Limited	100,709,028	84.2	27,161,644 to 41,502,602	20.0 to 30.0
Management Shareholders[26]	4,905,000	4.1	3,433,500 to 4,905,000	2.5 to 3.5
Other management and minority Shareholders	13,977,978	11.7	6,968,376 to 13,977,978	5.1 to 10.1
Senior Executive LTI Scheme Participants[28]	0	0%	1,437,000	1.0 to 1.1
New Shareholders pursuant to the Offer	0	0%	76,519,426 to 96,807,702	55.3 to 71.3

The Shares held by Direct Capital Investments Limited are managed by Direct Capital IV Management Limited and Direct Capital IV GP Limited. Direct Capital Investments Limited is holding those Shares as custodian for the beneficial owners of those Shares, including the Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) (as to 32.21% of the Shares held by Direct Capital Investments Limited) and Accident Compensation Corporation (as to 13.80% of the Shares held by Direct Capital Investments Limited) pursuant to co-investment arrangements. If those co-investment arrangements are terminated, those parties will take direct control of their Shares.

Commitments to Sell

The Selling Shareholders will each enter into binding commitments to sell their chosen number of Shares before commencement of the bookbuild.[29] Accordingly, the number of existing Shares available under the Offer is expected to be advised to bookbuild participants prior to the opening of the bookbuild.

Escrow Arrangements

Each of Direct Capital Investments Limited and the Management Shareholders (together, the *Escrowed Shareholders*) have entered into an escrow arrangement with Scales under which the Escrowed Shareholders have agreed not to sell or otherwise dispose of their existing Shares (or, in the case of the Management Shareholders, their Existing Senior Executive LTI Scheme Shares) which are not sold to the Offeror until the first day after Scales' preliminary announcement has been released to the market in

[27] Shareholders holding up to 1,500 Shares can elect to sell 100% of their Shares and Shareholders holding over 1,500 Shares can elect to sell 50% of their Shares.

[28] Shares will be issued to participants in the new Senior Executive LTI Scheme, which is being established concurrently with the Offer, on or before the Allotment Date. You can find out more about the new Senior Executive LTI Scheme in *Section 5.5: Board, Senior Management and Corporate Governance.*

[29] Such commitments will be given by entering into an agreement with the Offeror or, in the case of the other management and minority Shareholders, by accepting the Company's offer to buy back their Shares which will in turn be sold to the Offeror by the Company. None of the Selling Shareholders guarantees the Shares or the return on any investment made pursuant to this Prospectus.

respect of its financial results for the year ending 31 December 2015, without the approval of the Directors who are not "interested" in the decision (as that term is defined in the Companies Act), Scales and NZX.

These restrictions do not apply, and therefore no approval is needed, for an Escrowed Shareholder to grant a security interest in favour of a lender to that holder. In addition: (a) the Escrowed Shareholders may transfer the escrowed Shares to an "affiliate" (being a person owned or controlled by, or under common ownership or control with, the Escrowed Shareholder and in relation to a family trust includes any beneficiary of that trust) of the relevant Escrowed Shareholder, provided that such "affiliate" has agreed to be bound by the escrow terms; (b) the parties on whose behalf Direct Capital Investments Limited holds Shares may transfer interests in those Shares as between themselves or require those Shares to be transferred direct to that party or to a new custodian (subject to equivalent escrow terms); and (c) the Escrowed Shareholders may accept any full or partial takeover offer made in respect of the Shares under the Takeovers Code or similar scheme or arrangement. An "escrow" is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the securities concerned for the period of the escrow, subject to any exceptions in the escrow arrangement concerned.

8.1.3 Broker Firm Offer

Who can apply?	The Broker Firm Offer is open to New Zealand resident clients of NZX Firms who have received an allocation. You should contact your broker to determine whether they may allocate Shares to you under the Broker Firm Offer. There is no public pool under which you may subscribe for Shares.
How much will you pay?	You will pay the Final Price per Share allotted to you. No brokerage, commission or stamp duty is payable by you on subscribing for Shares under the Offer. See "Preliminary and Issue Expenses" in *Section 8.3: Statutory Information* for details of the brokerage payable to NZX Firms or brokers.
How do you apply?	Complete the Application Form accompanying the Investment Statement. Please contact your broker if you require further instructions.
How many Shares can you apply for?	NZX Firms will determine the number of Shares their New Zealand resident clients may apply for. However, the minimum Application amount is 1,000 Shares.
How do you pay for your Shares?	You should make payment in accordance with the directions of the NZX Firm from whom you received an allocation. Further information about how to pay is set out in the Investment Statement.
When do you need to apply?	The Broker Firm Offer opens on 5 July 2014. You should send your completed Application Form together with payment for your Shares to your NZX Firm in time to enable forwarding to the Registrar by 5.00pm on 22 July 2014.
How to obtain a copy of the Investment Statement	Please contact your broker for instructions. You may also obtain a copy of the Investment Statement and Broker Firm Offer Application Form by: • downloading a copy at www.scalescorporation.co.nz; or • requesting a copy from the Registrar, Computershare Investor Services Limited by calling (09) 488 8777. While you may obtain a copy of the Investment Statement and Application Form as set out above, your Application will not be accepted under the Broker Firm Offer if it is not lodged through your NZX Firm.

8.1.4 Pohutukawa Offer

Who can apply?	Pohutukawa currently has a 9.6% interest in Scales and will sell 66% of its Shares to the Offeror. Pohutukawa Investors will have an opportunity to subscribe for a number Shares through the Offer equivalent to their existing indirect interest in the Shares sold by Pohutukawa, which they currently hold through their investment in Pohutukawa. There is no public pool under which you may subscribe for Shares.
How do you apply?	Application instructions will be sent to the email address you have supplied to the Registrar in respect of this opportunity. Pohutukawa Investors who wish to subscribe for further Shares may participate in the Broker Firm Offer in the same manner as other Broker Firm Applicants and should contact their broker to indicate their interest in the Broker Firm Offer.
How many Shares can you apply for?	Once Pohutukawa has determined the number of Shares it will sell you will be advised by email of the number of Shares for which you can subscribe in the Pohutukawa Offer, which will be equivalent to your existing indirect interest in the Shares to be sold by Pohutukawa. You will only be able to accept in full the Pohutukawa Offer made to you.
How do you pay?	Pohutukawa has agreed to pay the subscription monies for Shares issued to Pohutukawa Investors under the Pohutukawa Offer on the basis that such amount will constitute a debt payable by the Pohutukawa Investor to Pohutukawa, and that Pohutukawa is entitled to set off against that debt any amounts that become payable by Pohutukawa to that Pohutukawa Investor. This is expected to be satisfied by the distribution to be made by Pohutukawa from the proceeds of sale of its Shares to the Offeror.
When do you need to apply?	The Pohutukawa Offer opens upon the close of the Financial Markets Authority consideration period (expected to be 5.00pm on Friday 27 June 2014). You must apply for Shares in the Pohutukawa Offer by 3.00pm on Wednesday 2 July 2014.
Custodians	To the extent that any Pohutukawa Investor is entitled to participate in the Pohutukawa Offer because it holds Shares as a custodian, that Pohutukawa Investor may only apply for Shares in the Pohutukawa Offer on behalf of the beneficial owner and only to the extent of that beneficial owner's indirect interest in the Shares to be sold by Pohutukawa.
How to obtain a copy of the Investment Statement	A copy of the Investment Statement will be provided to you electronically. You may also obtain a copy of the Investment Statement by: • downloading a copy at www.scalescorporation.co.nz; or • requesting a copy from the Registrar, Computershare Investor Services Limited by calling (09) 488 8777.

8.1.5 Institutional Offer

The Institutional Offer will be conducted through the bookbuild. The Joint Lead Managers will invite selected Institutional Investors along with NZX Firms to bid for Shares in the bookbuild process to be undertaken by the Joint Lead Managers on 3 and 4 July 2014 (unless the Issuers and the Joint Lead Managers agree to alter the dates of the bookbuild).

Full details of how to participate, including bidding instructions, will be provided by the Joint Lead Managers to invited Institutional Investors and NZX Firms in due course. Participants can bid into the book only through the Joint Lead Managers. Participants may bid for Shares at specific prices and may bid within, above or below the Indicative Price Range. All successful participants will pay the Final Price for each Share allocated to them.

Offer Management Agreement

The Issuers, Direct Capital IV GP Limited and the Joint Lead Managers have entered into an Offer Management Agreement. Under the Offer Management Agreement, once the Final Price has been determined, the Joint Lead Managers or their affiliates will be obliged to provide settlement support in respect of successful bids in the Institutional Offer. The Offer Management Agreement sets out a number of circumstances under which the Joint Lead Managers may terminate the Offer Management Agreement and their settlement support obligations. See “Material Contracts” in *Section 8.3: Statutory Information* for further information about the Offer Management Agreement.

8.1.6 Allocations, Allotments and Listing

Allocations

The allocation of Shares between the Broker Firm Offer and the Institutional Offer will be determined by the Issuers in consultation with the Joint Lead Managers. Pohutukawa Investors who subscribe for Shares in the Pohutukawa Offer will be allocated the full amount of Shares for which they are entitled to apply.

The number of Shares to be offered under the Institutional Offer, and the allocation of Shares among Institutional Investors and NZX Firms, will be determined by the Issuers in consultation with the Joint Lead Managers. The Issuers will have absolute discretion regarding the basis of allocation of Shares among Institutional Investors and NZX Firms. There is no assurance that any Institutional Investor or NZX Firm will be allocated any Shares, or the number of Shares for which it has bid. The allocation policy will be outlined in the bidding instructions, which will be provided to invited Institutional Investors and NZX Firms by the Joint Lead Managers in due course.

Allocations by NZX Firms to their New Zealand resident clients will be determined by those NZX Firms. It will be a matter for the NZX Firms to ensure that their New Zealand resident clients who have received an allocation from them receive their Shares. Broker Firm Offer Applicants should contact the NZX Firm from whom they received their allocation to find out if their Application was successful.

Allotments

Any New Zealand resident with a CSN will have their Shares allotted under their CSN, if the CSN was provided on the Application Form.

Applicants who do not have a CSN will be allocated a CSN at the time of Application. The CSN will be advised at the time the allotment of Shares is confirmed and the associated Authorisation Code (*FIN*) will be sent as a separate communication on 23 July 2014.

Shares allocated under the Offer are expected to be allotted on 24 July 2014.

Holding statements are expected to be sent to all successful Applicants on 24 July 2014. None of the Issuers, the Promoters, the Joint Lead Managers, the Registrar nor any of their respective directors, officers, employees or advisers accepts any liability should any person attempt to sell or otherwise deal with the Shares before a statement confirming allotment is received.

What you need to do to sell your Shares

If you wish to sell your Shares on the NZX Main Board, after confirming your allocation, you must contact an NZX Firm and have a CSN and FIN. Opening a new broker account can take a number of days depending on the NZX Firm's new client procedures. If you do not have a CSN, you will:

- be assigned one when you set up an account with an NZX Firm; or
- receive one from the Registrar when you receive your holding statement for your Shares (which is expected to be sent on 24 July 2014).

If you do not have a FIN, it is expected that you will be sent one as a separate communication by the Registrar on 23 July 2014. If you have a broker and have not received a FIN by the date you want to trade your Shares, your broker can obtain one, but may pass the cost for doing so on to you.

Listing and Quotation on NZX

Application has been made to NZX for permission to list Scales and to quote the Shares on the NZX Main Board and all the requirements of NZX relating thereto that can be complied with on or before the date of this Prospectus have been duly complied with. However, NZX accepts no responsibility for any statement in this Prospectus. The NZX Main Board is a registered market operated by NZX, which is a registered exchange, regulated under the Securities Markets Act.

Initial quotation of the Shares on the NZX Main Board is expected to occur under the symbol 'SCL' on 25 July 2014.

8.1.7 Selling Restrictions

The Offer is being made to Pohutukawa Investors, New Zealand resident clients of NZX Firms who receive a firm allocation of Shares and to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions. No person may offer, sell (including resell) or deliver or invite any other person to so offer, sell (including resell) or deliver any Shares or distribute any documents (including this Prospectus) to any person outside New Zealand, except in accordance with all of the legal requirements of the relevant jurisdiction.

Unless otherwise agreed with the Issuers, any person or entity subscribing for Shares in the Offer will, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of an offer or invitation of the kind contained in this Prospectus and is not acting for the account or benefit of a person within such a jurisdiction. In particular, any person who receives the Offer in Australia represents and warrants to Scales and the Joint Lead Managers that they are a person who falls within an exemption from disclosure to investors provided by the Corporations Act, including a "sophisticated investor" within the meaning of section 708(8) of the Corporations Act, a "professional investor" within the meaning of section 708(11) of the Corporations Act, or a "wholesale client" within the meaning of section 761G of the Corporations Act. Any offer of Shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act.

None of the Issuers, the Promoters, the Joint Lead Managers, the Registrar nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Australian Resident Investors

This document is not a prospectus, product disclosure document or other type of disclosure document required to be lodged with the Australian Securities and Investments Commission (ASIC) under Chapter 6D or Chapter 7 of the Corporations Act and it has not been, and will not be, lodged with ASIC. Accordingly, this document does not contain the information which would be contained in a prospectus, product disclosure document or other type of disclosure document prepared under the Corporations Act, and does not purport to contain all of the information that may be necessary or desirable to enable a potential investor to properly evaluate and consider an investment in the interests in Scales.

Any person to whom Shares are issued or sold without disclosure or pursuant to an exemption from the disclosure requirements provided by the Corporations Act must not, within 12 months after the issue or sale, offer those Shares for sale in Australia unless that offer is itself made pursuant to a disclosure document under Part 6D.2 or Chapter 7 of the Corporations Act or is itself made in reliance on an exemption from the disclosure requirements provided by the Corporations Act. Shares sold on-market through NZX will not constitute an offer of those Shares for sale in Australia.

8.2 NEW ZEALAND TAXATION IMPLICATIONS

In this section, “you” refers to the person who acquires the Shares.

Tax will affect your return from the Shares.

The following comments are of a general nature. They are based on the law at the date of this Prospectus and do not deal with your specific circumstances.

You should seek your own tax advice in relation to your Shares.

New Zealand tax implications for New Zealand tax resident Shareholders
The following is a summary of the New Zealand tax implications of investing in the Shares if you are a tax resident.

Distributions you receive from Scales
Distributions you receive from Scales will generally be taxable dividends for New Zealand tax purposes. Some distributions you receive from Scales may not be taxable dividends (for example, non-taxable bonus issues and certain returns of capital).

New Zealand operates an imputation regime under which income tax paid by Scales gives rise to credits, known as imputation credits, which may be attached to dividends it pays. Imputation credits attached to dividends may be used by New Zealand tax-resident shareholders to offset their tax liability in respect of the dividends. The maximum ratio at which Scales can attach imputation credits to dividends is 28:72 (that is, $28 of imputation credits to $72 of cash dividend).

Scales will generally be required to deduct resident withholding tax (*RWT*) from dividends it pays to you. Currently, the rate of RWT on dividends is 33%, less the amount of imputation credits attached to the dividend. Accordingly, where imputation credits are attached to dividends at the maximum permitted ratio (that is, the dividends are fully imputed), RWT equal to 5% of the gross dividend (that is, cash plus imputation credits) will be deducted. Where dividends are partially imputed, the amount of RWT deducted will be greater than 5% of the gross dividend. You will be entitled to a credit against your income tax liability for the amount of RWT deducted. Scales will not deduct RWT from dividends you receive if you hold a current RWT exemption certificate and have provided a copy of that certificate to Scales before the dividend is paid to you.

Filing an income tax return
If you are not otherwise required to file an income tax return, receiving dividends from Scales will not change that generally. If you are on a tax rate of less than 33% you may be able to reduce your other tax liabilities, or receive a refund of some or all of the RWT deducted from dividends paid to you, by filing a tax return.

If you file a tax return, you must include in your taxable income not only the cash dividend you receive, but also the imputation credits attached to, and RWT deducted from, your Scales dividend. The total amount included in your taxable income is referred to as the gross dividend. You will be able to use attached imputation credits and a credit for RWT deducted to satisfy (or partially satisfy) your tax liability on the gross dividend. If the attached imputation credits and RWT deducted exceed the amount of tax on the gross dividend, your tax liability on other income you earn may be reduced as a result of receiving the Scales dividend.

Tax on sale or disposal of Shares
Although New Zealand does not have a general capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Shares or be allowed a deduction for any loss you make. You must consider your individual circumstances to determine whether any gain on the sale or disposal of your Shares will be taxable (or loss deductible).

Generally, you will be subject to tax on any gain (or allowed to deduct any loss) arising from the sale or disposal of your Shares if you:

- are in the business of dealing in shares;
- acquire your Shares as part of a profit-making undertaking or scheme; or
- acquire your Shares with the dominant purpose of selling them.

Your taxable gain (or tax-deductible loss) will be the difference between the cost of your Shares and the amount received for their sale or disposal. If you have a taxable gain, you will likely be required to include that gain in a tax return for the tax year in which the sale occurs. You will need to pay any tax owing in respect of that gain at your marginal tax rate.

New Zealand tax implications for non-resident Shareholders
The following is a summary of the New Zealand tax implications of investing in the Shares if you are not tax resident in New Zealand and hold less than 10% of the voting interests in Scales.

Distributions you receive on your Shares
Scales will deduct non-resident withholding tax (*NRWT*) from taxable dividends paid to you. Most distributions by Scales will be taxable dividends, but non-taxable bonus issues and certain returns of capital will not be taxable dividends. A 15% rate of NRWT will apply:

- to the extent the dividend is fully imputed; or
- if you are resident in a country with which New Zealand has a double taxation agreement that provides for such a rate,

otherwise a 30% rate of NRWT will apply.

If Scales pays a fully imputed dividend, then Scales may pay you an additional supplementary dividend which effectively offsets the NRWT on the dividend. If Scales pays a partially imputed dividend, the amount of supplementary dividend will be reduced on a pro rata basis so that it will effectively offset the NRWT on part of the dividend only.

Sale or disposal of Shares
Although New Zealand does not have a general capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Shares (or allowed a deduction for any loss you make). You must consider your individual circumstances to determine whether any gain on the sale or disposal of your Shares will be taxable (or loss deductible).

Generally, you will be subject to tax on any gain (or be allowed to deduct any loss) arising from the sale or disposal of your Shares where you:

- are in the business of dealing in shares;
- acquire your Shares as part of a profit-making undertaking or scheme; or
- acquire your Shares with the dominant purpose of selling them.

Your taxable gain (or tax-deductible loss) will be the difference between the cost of your Shares and the amount received for their sale or disposal.

If you are a resident of a country which has a double taxation agreement with New Zealand, subject to the particular provisions of the relevant double taxation agreement, any New Zealand tax liability on income you derive from the sale of shares in New Zealand companies may be relieved under the terms of the relevant double taxation agreement unless:

- you have a 'permanent establishment' in New Zealand through which the Shares are held; or
- the shares are in a company whose value is derived as to 50% or more from land, buildings and other real property.

Because Scales' assets comprise in part land, structures affixed to land and natural resources, you may not be entitled to relief from New Zealand tax on any gain on sale by reason of a double taxation agreement.

If you derive a taxable gain on the sale or disposal of your Shares and the New Zealand tax liability is not relieved under a double taxation agreement you will be required to include that gain in a New Zealand tax return for the tax year in which the sale occurred and pay tax on the gain in New Zealand at your applicable rate.

No stamp duty or GST

New Zealand does not have stamp duty. New Zealand GST should not apply to your investment in the Shares.

8.3 STATUTORY INFORMATION

The information in this section is included in accordance with the requirements of Schedule 1 to the Securities Regulations 2009.

1 **Main terms of the Offer**

The issuer of the Shares is Scales Corporation Limited. Its registered office is set out in the *Directory*.

The securities being offered are fully paid ordinary shares in the Company, comprising both existing Shares held by the Selling Shareholders and new Shares to be issued by Scales, which will be acquired by the Offeror and sold under this Offer at the Final Price to members of the public in New Zealand (pursuant to the Broker Firm Offer and Pohutukawa Investors) and to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions (pursuant to the Institutional Offer).

The maximum number of Shares being offered under the Offer is 100,778,486.[30]

The consideration to be paid for each Share transferred on the Allotment Date is the Final Price.

An Indicative Price Range of $1.60 to $1.85 per Share has been set by the Issuers, however, the Issuers, in their sole discretion may set the Final Price within, above or below this range. Information about how the Final Price will be determined is set out under the heading "Pricing of the Offer" in *Section 8.1: Details of the Offer*. The Final Price is expected to be announced following the bookbuild on 4 July 2014 and will be available at www.scalescorporation.co.nz.

Each Share gives the holder a right to:

- attend and vote at a meeting of Shareholders, including the right to cast one vote per Share on a poll on any resolution, such as a resolution to:
  - appoint or remove a Director;
  - adopt, revoke or alter the Constitution;
  - approve a major transaction (as that term is defined in the Companies Act);
  - approve the amalgamation of Scales under section 221 of the Companies Act; or
  - place Scales in liquidation;
- receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by Scales in respect of that Share;
- receive an equal share with other Shareholders in the distribution of surplus assets in any liquidation of Scales;
- be sent certain information, including notices of meeting and company reports sent to Shareholders generally; and
- exercise the other rights conferred upon a Shareholder by the Companies Act and the Constitution.

A Shareholder's ability to exercise these rights is subject to restrictions contained in the constitution and the NZX Listing Rules.

[30] Based on $30 million of Shares being issued at the lower end of the Indicative Price Range and on the Selling Shareholders selling the maximum number of Shares in the sell down range specified in *Section 8.1: Details of the Offer*.

2 **Name and Address of Offeror**

The offeror of the Shares is SCL Limited. Its registered office is set out in the *Directory*.

Scales received $64,668,786 in respect of the original allotment of the total ordinary shares of Scales existing as at the date of this Prospectus.

The aggregate amount of consideration that will be received by Scales for the Shares to be issued to the Offeror will be $30 million.[31]

3 **Details of Incorporation of the Issuer**

Scales was incorporated in New Zealand on 8 June 1989 under the Companies Act 1955. Scales was reregistered to become a company under the Companies Act on 18 December 1996. Its registration number is 424743.

You can inspect the public file relating to the Company maintained by the Companies Office of the Ministry of Business, Innovation and Employment on its website at www.business.govt.nz/companies.

4 **Principal Subsidiaries of the Company**

As at the date of this Prospectus, Scales' principal subsidiaries (each of which is 100% owned by the Group) are: Scales Holdings Limited, Mr Apple New Zealand Limited, Polarcold Stores Limited, Whakatu Coldstores Limited, Meateor Foods Limited and Liqueo Bulk Storage Limited.

5 **Names, Addresses and Other Information**

Directors

Scales' Directors, and their principal place of residence as at the date of this Prospectus, are Andrew James Borland (Christchurch), Mark Robert Hutton (Auckland), Jonathan Irving Mayson (Mount Maunganui), Alan Raymond Isaac (Wellington), Timothy Goodacre (Melbourne, Australia) and Nicholas John Harris (Christchurch).

You can contact the Directors at Scales' registered office as set out in the *Directory*.

Andy Borland is the Managing Director of Scales.

Promoter

Direct Capital IV GP Limited is a promoter of the Offer. Its registered office is set out in the *Directory*.

The directors of Direct Capital IV GP Limited, and their principal place of residence as at the date of this Prospectus, (who, except in the case of Mark Robert Hutton, are also each a Promoter) are Anthony David Batterton (Auckland), Ross Andrew George (Auckland), Mark Robert Hutton (Auckland) and William James Kermode (Auckland).

Registrar

Scales' share registrar is Computershare Investor Services Limited. Its contact address is set out in the *Directory*.

Secretary

The Company Secretary of Scales is Steve Kennelly.

Auditor

Scales' auditor is Deloitte. Its contact address is set out in the *Directory*.

[31] Less the Shares (of up to $3,180,000) to be issued to eligible Scales employees who choose to participate in the Employee Share Ownership Scheme which is not made under this Offer but which is described in *Section 5.5: Board, Senior Management and Corporate Governance*.

Advisers
The names and addresses of the solicitors and other professional advisers to Scales who have been involved in the preparation of this Prospectus are set out in the *Directory*.

Experts
Deloitte, Chartered Accountants, have given their consent and have not withdrawn their consent before delivery of this Prospectus for registration under section 41 of the Securities Act to the distribution of this Prospectus with the inclusion of the Investigating Accountant's Report in this Prospectus in the form and context in which it is included. Deloitte's registered address is set out in the *Directory*. Deloitte is not and does not intend to be a director, officer or employee of Scales. However, Deloitte has provided, and may in future provide, external audit and professional advisory services to the Group.

6 **Restrictions on Directors' Powers**

The Constitution incorporates by reference the requirements of the NZX Listing Rules and the Constitution requires Scales to comply with the NZX Listing Rules for so long as the Shares are quoted on the NZX Main Board. The principal restrictions on the powers of the Board imposed by the Constitution (including the requirements of the NZX Listing Rules incorporated into the Constitution) are that the Board may not:

- issue or acquire any equity securities except in accordance with the provisions of the Companies Act, the Constitution and the NZX Listing Rules;
- give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued by Scales, except in limited circumstances and in accordance with the provisions of the Companies Act, the Constitution and the NZX Listing Rules;
- cause Scales to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Scales which would change the essential nature of the business of the Group in respect of which the gross value is in excess of 50% of the average market capitalisation of the Company, without the prior approval of an ordinary resolution of Shareholders; and
- allow Scales to enter into certain material transactions with related parties if that related party is, or is likely to become, a direct or indirect party to the material transaction without the prior approval of an ordinary resolution of Shareholders.

In addition, a Director may not vote on any matter in which he or she is interested, unless permitted by the Companies Act and the NZX Listing Rules, where he or she has complied with the relevant provisions and signed a certificate in respect of the matter.

The Companies Act contains a number of other provisions that could have the effect, in certain circumstances, of imposing restrictions on the powers of the Board. For example, Directors cannot allow Scales to:

- enter into any major transaction (as that term is defined in the Companies Act) without the prior approval of a special resolutions of Shareholders; or
- take any action which affects the rights attaching to the Shares without the prior approval of a special resolution of each interest group (as that term is defined in the Companies Act).

These provisions apply to any company registered under the Companies Act.

7 **Substantial Equity Security Holders of Issuer**

The following table sets out the names of the 10 largest registered holdings of equity as at 18 June 2014:

Shareholder	Number of Shares	%
Direct Capital Investments Limited	100,709,028	84.21
Scales Employees Limited	5,325,000	4.45
Richard Henry Hill, Morris Wayne Williams, Christopher Jon Jamieson and Ian Gordon Bruce Davidson	3,307,500	2.77
John Grant & Camille Elizabeth Sinclair	2,241,000	1.87
John Grant Sinclair	1,447,500	1.21
Edward Oral and Jennifer Elizabeth Sullivan	474,336	0.40
Paul Hewitson and Christopher John Stark	360,000	0.30
Alistair David Stark and Christopher John Stark	300,000	0.25
Asset Management Limited	270,810	0.23
Robert Sloss & Jill Sloss	244,800	0.20

As at the date of this Prospectus, the following Shareholders have relevant interests (as defined in the Securities Markets Act 1988) in 5% or more of the Shares: (a) Direct Capital Investments Limited is the registered holder of 100,709,028 Shares; (b) Direct Capital IV Management Limited and Direct Capital IV GP Limited are responsible for managing those Shares held by Direct Capital Investments Limited and accordingly have the power to exercise, or to control the exercise of, the rights to vote attached to such shares and the power to acquire or dispose of, or control the acquisition or disposition of, such Shares; and (c) Direct Capital Investments Limited is holding those Shares as custodian for the beneficial owners of those Shares, being DCIV-PII Delta Partnership (a partnership between Direct Capital IV Limited Partnership and Pohutukawa Delta Limited) (as to 43.91% of the Shares held by Direct Capital Investments Limited), Direct Capital IV Investments Limited (as to 2.91% of the Shares held by Direct Capital Investments Limited), Hendry Nominees Limited (as to 0.90% of the Shares held by Direct Capital Investments Limited), Direct Capital IV Delta Limited Partnership (as to 6.27% of the Shares held by Direct Capital Investments Limited), Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) (as to 32.21% of the Shares held by Direct Capital Investments Limited), through a co-investment arrangement and the Accident Compensation Corporation (as to 13.80% of the Shares held by Direct Capital Investments Limited), through a co-investment arrangement, which were acquired over a period of time since July 2011 through share issues and purchases for a net aggregate consideration of $67,139,352, plus use of money interest. Note that pursuant to their co-investment arrangements, each of Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) and the Accident Compensation Corporation may end those arrangements and take direct control of the subject Shares.

None of the persons named above guarantee, or undertake any liability in respect of, the Shares.

8 **Description of Activities of Issuing Group**

Scales is the holding company for the Group. The principal activities carried out by the Group in the previous five years are producing and exporting primary sector products and associated activities such as providing cold and bulk liquid storage services. You can read a full description of the business of the Group in *Section 5: About Scales*.

The Group's principal assets are apple orchards, packhouses and coolstores, cold storage and bulk liquid storage facilities and food processing facilities which it uses in the operation of its Horticulture, Storage & Logistics and Food Ingredients divisions. The Group owns or leases all of its principal assets. The principal assets owned by the Group are subject to the security granted as part of its financing arrangements set out in *Section 7.8: Description of Scales' Financing Arrangements* which may modify or restrict Scales' ability to deal with those assets.

9 **Summary Financial Statements**

Summary financial statements for each of the five consecutive financial periods preceding FY2013 are set out in *Section 7.4: Five Year Summary of Historical Financial Information*.

10 **Prospects and Forecasts**

Section 5: About Scales describes the Group generally, together with any material information that may be relevant to its trading prospects. The Group's trading prospects are described more particularly in *Section 7.3: Prospective Financial Information*.

Any special trade factors and risks which could materially affect the prospects of the Group and which are not likely to be known or anticipated by the general public are set out in *Section 6: What are my Risks?*

11 **Provisions Relating to Initial Flotations and Minimum Subscriptions**

The plans of the Directors in respect of the Group during the 12 month period commencing on the date of this Prospectus are to continue to implement its strategy as described in this Prospectus.

The sources of finance required for these plans will be Scales' operating cash flow, supplemented by borrowings. Scales intends to use the proceeds of the issue of new Shares under the Offer to pay down term debt, which will provide Scales with flexibility for the future expansion of its business.

Notwithstanding the plans of the Directors, the proceeds of the Offer may be applied towards any other purpose.

Prospective statements of financial position, prospective statements of financial performance and prospective statements of cash flows for the accounting periods ending 31 December 2014 and 31 December 2015 are set out in *Section 7.3: Prospective Financial Information*.

The minimum amount that must be raised by the issue of the Shares pursuant to section 37(2) of the Securities Act is $30 million.[31] In addition, if there is insufficient demand for the Shares in the bookbuild at a price acceptable to the Company and Direct Capital IV GP Limited (as Promoter) the Offer will not proceed.

12 **Acquisition of Business or Subsidiary**

Not applicable.

13 **Securities Paid up Otherwise than in Cash**

Not applicable.

14 **Options to Subscribe for Securities of Issuing Group**

Not applicable.

15 **Appointment and Removal of Directors**

Scales is or will be party to a listing agreement with NZX (a registered exchange) and the method by which Directors may be appointed to or removed from, or otherwise vacate, office is the same as that contained in the NZX Listing Rules. No person (other than the Shareholders of Scales in a general meeting, any Shareholder holding more than 10% of the Shares (as permitted by Listing Rule 3.3.8, provided that if any such Shareholder exercises its right to appoint a Director it may not vote on the election of any other Director) or the Directors acting as a Board to fill a casual vacancy) has the right to appoint any Director.

Each Director has the power to appoint any person (other than another Director) as an alternate director, who may be any person not disqualified under the Companies Act from holding the position of a director of a company and who is approved by a majority of the other Directors.

Such alternate directors may vote in the election of other Directors of Scales, but only in their capacity as a member of the Board, acting to fill a casual vacancy.

16 **Interested Persons**

Scales has granted indemnities, to the fullest extent permitted by the Companies Act and the Securities Act, in favour of each of its Directors. Scales also maintains insurance for its Directors and officers to the extent permitted by the Companies Act and the Securities Act.

Each director of the Group is entitled, without limit, to be paid for all reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as a director.

Andy Borland is the Managing Director of Scales and receives remuneration for services performed in that role. The remuneration he receives from Scales for these services is limited to such an amount as may be agreed by the Board. Andy Borland has an indirect interest in 1,575,000 Shares.

Certain Shareholders are employees of the Group and receive remuneration for services performed in their capacity as employees. The remuneration such employees receive from the Group is limited to such an amount as may be agreed by the Group.

Direct Capital IV Management Limited, of which each director of Direct Capital IV GP Limited is also a director, received a fee of $75,000 in relation to the demerger of the Investments division of Scales. George H Investments Limited, the holding company of the demerged Investments division of Scales, is an associated person of Scales. Scales and George H Investments Limited are party to a Management Services Agreement described below under the heading "Material Contracts".

Nick Harris is a director and shareholder of Hellers Limited, which is a customer of Scales' Storage & Logistics division. Jon Mayson is a director of Ziwipeak Limited, which is a customer of Scales' Storage & Logistics division.

Particulars of the shareholdings in Scales, both prior to and following the Offer, are set out under the heading "Shareholding" in *Section 8.1: Details of the Offer*.

Direct Capital IV GP Limited and entities associated with it are responsible for managing, or otherwise have interests in, the Shares held by Direct Capital Investments Limited and accordingly Direct Capital IV GP Limited and its directors are interested in such Shares.

17 **Material Contracts**

The Group has entered into the following material contracts in the two years prior to the date of this Prospectus:

Demerger contracts

Historically, Scales had four operating divisions, being Food Ingredients, Horticulture, Storage & Logistics and Investments. The Investments division included investment properties and a shareholding in NZX Main Board listed Turners & Growers Limited. On 30 April 2014, the Investments division was demerged from the Group pursuant to a Court approved scheme of arrangement. The shareholders of Scales as at 30 April 2014 were issued with shares in George H Investments Limited (the holding company for the demerged Investments division) and received a cash payment.

The following material contracts were entered into by the Group in relation to ongoing rights and obligations between the Group and the demerged Investments division (the *Demerged Group*) following the demerger:

Management Services Agreement

On 1 March 2014, Scales and George H Investments Limited entered into a Management Services Agreement, under which Scales will provide management and administration services to the Demerged Group, including property advice and management, accounting, tax and secretarial assistance and such other services as reasonably required by the Demerged Group from time to time. George H Investments Limited is charged the costs and expenses of performing the services.

Option to acquire 8C Canada Crescent
On 1 March 2014, Polarcold and Silverstream Industrial Park Limited (part of the Demerged Group) entered into a sale and purchase agreement under which Silverstream Industrial Park Limited purchased 8C Canada Crescent, Hornby, Christchurch from Polarcold. Under the sale and purchase agreement, Silverstream Industrial Park Limited granted Polarcold an option to re-purchase the property at any time before 31 December 2015.

Option to acquire Lot 12, Johnston Way, Hawke's Bay
On 1 March 2014, Whakatu Coldstores and Whakatu Property Management Limited (part of the Demerged Group) entered into an option to buy agreement under which Whakatu Property Management Limited granted Whakatu Coldstores an option to purchase Lot 12, Johnston Way, Hawke's Bay (to be created on subdivision) at any time before 31 December 2015 subject to the subdivision being completed.

Option to acquire Lot 9, Groome Place, Hawke's Bay
On 1 March 2014, Mr Apple and Scales Property Development Limited (part of the Demerged Group) entered into an option to buy agreement under which Scales Property Development Limited granted Mr Apple an option to purchase Lot 9, Groome Place, Hawke's Bay (to be created on subdivision) at any time before 31 December 2015 subject to the subdivision being completed.

Option to acquire Lot 10, Groome Place, Hawke's Bay
On 1 March 2014, Mr Apple and Scales Property Development Limited (part of the Demerged Group) entered into an option to buy agreement under which Scales Property Development Limited granted Mr Apple an option to purchase Lot 10, Groome Place, Hawke's Bay (to be created on subdivision) at any time before 31 December 2015 subject to the subdivision being completed.

Offer Related Contracts
The following material contracts have been entered into by the Group in relation to the Offer:

Restricted Security Agreements
Scales has entered into restricted security agreements dated 19 June 2014 with Direct Capital Investments Limited (on behalf of itself and the parties on whose behalf it holds Shares as custodian) and the Management Shareholders, under which Direct Capital Investments Limited and the Management Shareholders have agreed to continue to hold all of their existing Shares (or, in the case of the Management Shareholders, their Existing Senior Executive LTI Scheme Shares) which they do not sell as part of the Offer until the first day after Scales' preliminary announcement has been released to the market in respect of its financial results for the year ending 31 December 2015. Further details in respect of these agreements are set out under the heading "Escrow Arrangements" in *Section 8.1: Details of the Offer*.

Agreement for Sale and Purchase of and Subscription for Shares
The Issuers, Direct Capital Investments Limited and the Management Shareholders have entered into an agreement for sale and purchase of, and subscription for, Shares in Scales dated 19 June 2014, under which the Offeror agrees to purchase certain Shares from the parties and the Offeror agrees to subscribe for additional Shares to be issued by Scales. The purchase and subscription will take place on or about the Allotment Date at the Final Price, and are being undertaken for the purpose of offering these Shares under the Offer. It is a condition of this agreement that Direct Capital Investments Limited gives its approval of the Final Price.

Offer Management Agreement
On 19 June 2014 the Issuers, Direct Capital IV GP Limited and the Joint Lead Managers entered into the Offer Management Agreement, which sets out the obligations of the Joint Lead

Managers in relation to the operation of the bookbuild and also in relation to the provision of settlement support in certain circumstances described below. Under the Offer Management Agreement:

- the Joint Lead Managers commit to conduct the bookbuild in the manner described in this Prospectus; and

- if a participant in the Institutional Offer is allocated Shares and fails to settle on those Shares, the Joint Lead Managers are required to pay the Offeror in cleared funds the shortfall on the Allotment Date. The Offer is not underwritten other than in respect of such settlement support.

The obligations of the Joint Lead Managers under the Offer Management Agreement are subject to certain conditions given for the benefit of the Joint Lead Managers. If the conditions of the Offer Management Agreement are not satisfied (or waived, if capable of waiver), the Joint Lead Managers would not be obliged to perform their obligations under the Offer Management Agreement (including their settlement support obligations in respect of Applications under the Institutional Offer). That may not necessarily mean that the Issuers would withdraw the Offer or that the Offer would not proceed.

The Joint Lead Managers may terminate the Offer Management Agreement and their settlement support obligations in respect of Applications under the Institutional Offer in certain circumstances, including where on or before settlement of the Institutional Offer (on the Allotment Date, which is expected to be 24 July 2014):

- the Offer is withdrawn by the Issuers;

- any material adverse change occurs which is likely to materially adversely affect the Group;

- the Offeror is prevented from transferring Shares pursuant to the Offer by any applicable laws or as a result of an order or judgement of a Court or regulatory authority;

- a statement in this Prospectus, the Investment Statement or the accompanying Application Form is or becomes untrue, inaccurate, misleading or deceptive or likely to mislead or deceive in any material respect or a material matter is omitted;

- an insolvency event occurs in relation to an Issuer;

- any of the following occurs and, in the reasonable opinion of the Joint Lead Managers, is likely to have a material adverse effect on certain specified matters, including the settlement of the Offer or the Joint Lead Managers' ability to perform their functions:

    - there are particular disruptions in certain major financial markets;

    - a representation or warranty contained in the Offer Management Agreement on the part of the Issuers or Direct Capital IV GP Limited is not true or correct;

    - there is a breach of the Offer Management Agreement by the Issuers.

Pursuant to the Offer Management Agreement, the Issuers have granted an indemnity to the Joint Lead Managers in relation to all claims and losses suffered or incurred by the Joint Lead Managers in relation to the Offer or the Offer Management Agreement, provided that the Issuers will have no liability if such claim or loss is determined to have resulted from the fraud, wilful misconduct, wilful default or gross negligence of the Joint Lead Managers.

The Offer Management Agreement also sets out a number of representations, warranties and undertakings by the Issuers and Direct Capital IV GP Limited to the Joint Lead Managers, and by the Joint Lead Managers to the Issuers and Direct Capital IV GP Limited, which are customary for an offer of this nature.

18 **Pending Proceedings**

Not applicable.

19 **Preliminary and Issue Expenses**

Issue expenses (including brokerage and commission fees, management fees, share registry expenses, legal fees, accounting fees, advertising costs, printing costs and postage and courier costs) relating to the Offer are estimated to amount to an aggregate of $2.9 million, assuming a Final Price at the mid point of the Indicative Price Range. The Company will pay all costs associated with the Offer except for brokerage of up to 3.75% on the Shares sold by the Selling Shareholders, which will be paid or reimbursed by the relevant Selling Shareholder.

The Joint Lead Managers will be paid fees in connection with the Offer of up to 3.75% of the gross proceeds of the Offer.

The Joint Lead Managers will pay NZX Firms certain fees as agreed between them including a commission of 1.5% of the gross proceeds in respect of a valid Application bearing their stamp submitted under the Broker Firm Offer.

The Joint Lead Managers will pay NZX Firms a commission of 0.75% of the gross proceeds in respect of a valid election form bearing their stamp submitted under the Pohutukawa Offer.

20 **Restrictions on Issuing Group**

The restrictions in the Group's financing arrangements on the ability of the Group to make a distribution or borrow are set out in *Section 7.8: Description of Scales' Financing Arrangements*.

In addition, Scales is subject to general company law restrictions (such as satisfaction of the solvency test under the Companies Act) in relation to the payment of dividends, which operate as fetters on the ability to make distributions.

21 **Other Terms of Offer and Securities**

All of the terms of the Offer, and all the terms of the Shares, are set out in this Prospectus, other than any terms implied by law or any terms set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Prospectus.

22-23 **Financial Statements**

Financial Statements for the 12 month accounting period ended 31 December 2013 are set out in *Section 7.5: Audited Financial Statements for the Year Ended 31 December 2013*. The financial statements comply with, and have been registered on 6 June 2014 under, the Financial Reporting Act.

24 **Additional Interim Financial Statements**

Not applicable.

25 **Places of Inspection of Documents**

You may inspect (without charge) during the period of the Offer, during normal business hours, the Constitution, copies of the material contracts referred to above under the heading "Material Contracts" and copies of the financial statements referred to above under the heading "Financial Statements" at Scales' registered office as set out in the *Directory*. You may also inspect copies of these documents at any time on the Companies Office website at www.business.govt.nz/companies.

26 **Other Material Matters**

Takeovers Code exemption

The Takeovers Panel has approved the granting to the Offeror of an exemption from rule 6(1) of the Takeovers Code in respect of any increase in its voting rights in the Company as a result of the arrangements entered into to allow existing Shareholders to sell their Shares and the issue of new Shares to the Offeror prior to completion of the Offer.

The exempted persons are to be exempted from compliance with the fundamental provision in the Takeovers Code which restricts a holder or controller of less than 20% of the voting rights in a code company from becoming the holder or controller of more than 20% of the voting rights in that company, without complying with certain requirements.

The Takeovers Panel has approved the granting of the exemption subject to certain conditions, including (among other conditions) a statement in this Offer Document of the potential maximum control percentage in the Company of Direct Capital Investments Limited on completion of the allotment of voting securities to the public in accordance with the Offer. This information is set out under the heading “Selling Shareholders” in *Section 8.1: Details of the Offer*.

Once formally granted, a copy of the relevant exemption notice (expected to be the Takeovers Code (Scales Corporation Limited) Exemption Notice 2014) is expected to be available on the New Zealand Government’s legislation and regulations website at www.legislation.govt.nz and on the Takeovers Panel website at www.takeovers.govt.nz.

There are no other material matters relating to the Offer, other than those set out in this Prospectus, the financial statements or in contracts entered into in the ordinary course of business of a member of the Group.

27 **Directors’ Statement**

The Directors, after due enquiry by them, are of the opinion that none of the following have materially and adversely changed during the period between 31 December 2013 and the date of registration of this Prospectus:

- the trading or profitability of the Group;
- the value of the Group’s assets; or
- the ability of the Group to pay its liabilities due within the next 12 months.

28 **Auditor’s Report**

The Auditor’s report required by clause 28 of Schedule 1 of the Securities Regulations is set out in *Section 7.6: Auditor’s Report*. The financial statements required by clause 23 of Schedule 1 of the Securities Regulations have been audited by Deloitte. Deloitte is registered under the Auditor Regulation Act 2011 with registration under AUD187. There are no restrictions or limitations on Deloitte’s registration.

Signatures required by the Securities Act

A copy of this Prospectus has been signed by each director of the Issuers and by each Promoter (or his or her agent authorised in writing).

GLOSSARY

Allotment Date	24 July 2014, unless brought forward or extended by the Issuers
Applicant	A person who submits an Application Form
Application	An application to subscribe for Shares offered under the Investment Statement and this Prospectus
Application Form	An application form attached to or accompanying the Investment Statement to subscribe for Shares
Auditor	Deloitte
Average Prospective Net Debt	Calculated as the post Offer term debt balance of $30 million plus the average net working capital facility balance (calculated as the average of the net working capital facility balance as at 30 June 2014 and 31 December 2014).
Broker Firm Offer	The offer of Shares under the Investment Statement and this Prospectus to New Zealand resident retail clients of brokers who have received an allocation from their broker
Business Day	A day on which the NZX Main Board is open for trading
CAGR	Compound annual growth rate
Closing Date	The last day on which Applications will be accepted under the Broker Firm Offer, being 23 July 2014, unless brought forward or extended by the Issuers
Companies Act	Companies Act 1993
Constitution	The constitution of Scales, as amended from time to time
Corporations Act	Corporations Act 2001 of the Commonwealth of Australia
CSN	Common Shareholder Number
Director	A director of Scales
EBITDA	Earnings before interest, tax, depreciation and amortisation
Existing Senior Executive LTI Scheme	The existing senior executive LTI scheme described in *Section 5.5: Board, Senior Management and Corporate Governance*
Fern Ridge Produce	Fern Ridge Produce Limited
Final Price	The price per Share at which the Shares will be allotted, expected to be determined on or about 4 July 2014
Financial Reporting Act	Financial Reporting Act 1993
FMCG	Fast moving consumer goods
FOB	Free on board, a term which means that the price for goods includes delivery at the seller's expense on to a vessel at a named port and no further. The buyer bears all costs thereafter (including costs of sea freight)
FY	Financial year. If followed by 'F' this indicates prospective information for a future financial year
Group	Scales and each of its subsidiaries
ha	Hectare, a metric unit of measurement defined as 10,000 square metres
IFRS	International Financial Reporting Standards
Indicative Price Range	$1.60 to $1.85 per Share
Institutional Investors	Investors to whom the Joint Lead Managers determine an offer or invitation of securities may be made without the need for a lodged prospectus (or other formality, other than a formality with which the Issuers and the Promoters are willing to comply), including in New Zealand persons to whom offers or invitations can be made without the need for a registered prospectus under the Securities Act
Institutional Offer	The invitation to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions
Investment Statement	The investment statement in respect of the Offer
Issuers	Scales and the Offeror
Joint Lead Managers	First NZ Capital Securities Limited and Deutsche Craigs Limited
KL	Kilolitre
Liqueo	Liqueo Bulk Storage Limited
Management Shareholders	Andy Borland, Steve Kennelly, James Lee, Andrew van Workum, Andrew McDougall, Richard Hill, Peter Drury, Kevin Cahill, Steve Foote, Kent Ritchie, Graham Klein and John

	Sainsbury (or their nominee that holds Shares)
Meateor	Meateor Foods Limited
MPI	Ministry for Primary Industries
Mr Apple	Mr Apple New Zealand Limited
MT	Metric tonnes
Net Profit	Net profit after tax
NZ GAAP or **GAAP**	New Zealand Generally Accepted Accounting Practice
NZIFRS	New Zealand equivalents to International Financial Reporting Standards
NZX	NZX Limited
NZX Firm	An entity designated as an NZX Firm under the Participant Rules of NZX
NZX Listing Rules	The listing rules applying to the NZX Main Board as amended from time to time
NZX Main Board	The main board equity security market, operated by NZX
Offer	The offer of Shares pursuant to the Investment Statement and this Prospectus
Offeror	SCL Limited
PFI	Prospective financial information
Pohutukawa	Pohutukawa Delta Limited (being a member of Pohutukawa Private Equity II Fund)
Pohutukawa Investor	Any person who was recorded in the share register of Pohutukawa as a holder of redeemable preference shares in Pohutukawa as at 5.00pm on 30 May 2014 and who has a New Zealand address
Pohutukawa Offer	The offer of Shares under the Investment Statement and this Prospectus to Pohutukawa Investors
Polarcold	Polarcold Stores Limited
Profruit	Profruit (2006) Limited
Promoters	Direct Capital IV GP Limited and its directors who are not also directors of an Issuer (being Anthony David Batterton, Ross Andrew George and William James Kermode)
Prospectus	This document
Registrar	Computershare Investor Services Limited
RSE Scheme	The Recognised Seasonal Employer Policy administered by Immigration New Zealand
Scales or **the Company**	Scales Corporation Limited
Scales Logistics	Scales Logistics Limited
Securities Act	Securities Act 1978
Securities Regulations	Securities Regulations 2009
Selacs Insurance	Selacs Insurance Limited
Selling Shareholders	Direct Capital Investments Limited and all other Shareholders of Scales (including the Management Shareholders) who choose to sell Shares which will be made available under the Offer
Share	An ordinary share in Scales
Shareholder	A holder of one or more Shares
TCE	Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight
Whakatu Coldstores	Whakatu Coldstores Limited

Additional Definitions for the Key Offer Statistics and Key Investment Metrics	
EV/EBITDA multiple	EV divided by EBITDA for the respective forecast financial year. This is a valuation metric that enables comparison with other listed companies.
Implied cash dividend yield	Dividends per Share for the respective prospective financial year divided by the Indicative Price Range. Based on the cash cost to Scales, not necessarily the cash received by investors which will depend on individual investor tax rates and the assumption that the investor holds Shares over the full year.
Implied gross dividend yield	Dividends per share for the respective prospective financial year, grossed up for imputation credits expected to be attached to the dividend (calculated at a tax rate of 28%), divided by the Indicative Price Range. This metric is used to

	approximate the return to the average investor on a pre-tax basis.
Indicative enterprise value (EV)	Indicative market capitalisation plus Average Prospective Net Debt.
Indicative market capitalisation	The number of existing Shares on issue multiplied by the Indicative Price Range plus $30 million.
Price/earnings ratio	Indicative market capitalisation divided by Net Profit for the respective forecast financial year. This is a valuation metric that enables comparison with other listed companies.

DIRECTORY

THE COMPANY

Scales Corporation Limited
52 Cashel Street
Christchurch Central
Christchurch 8013

OFFEROR

SCL Limited
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Christchurch Central
Christchurch 8013

PROMOTER

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AUDITOR AND INVESTIGATING ACCOUNTANT

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REGISTRAR

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JOINT LEAD MANAGERS

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