Growing New Zealand

Scales Corporation Limited
Annual Report 2015

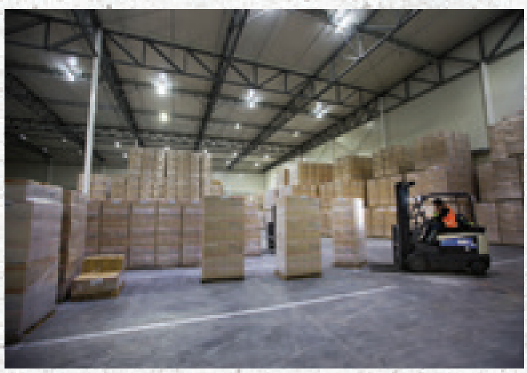


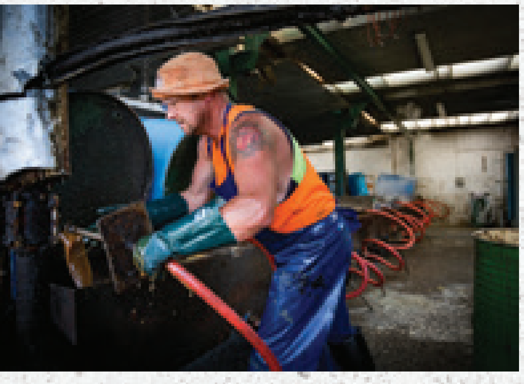



Scales
growing New Zealand

The businesses growing Scales Corporation

Storage & Logistics





Food Ingredients

Horticulture

National coverage, global presence

Contents

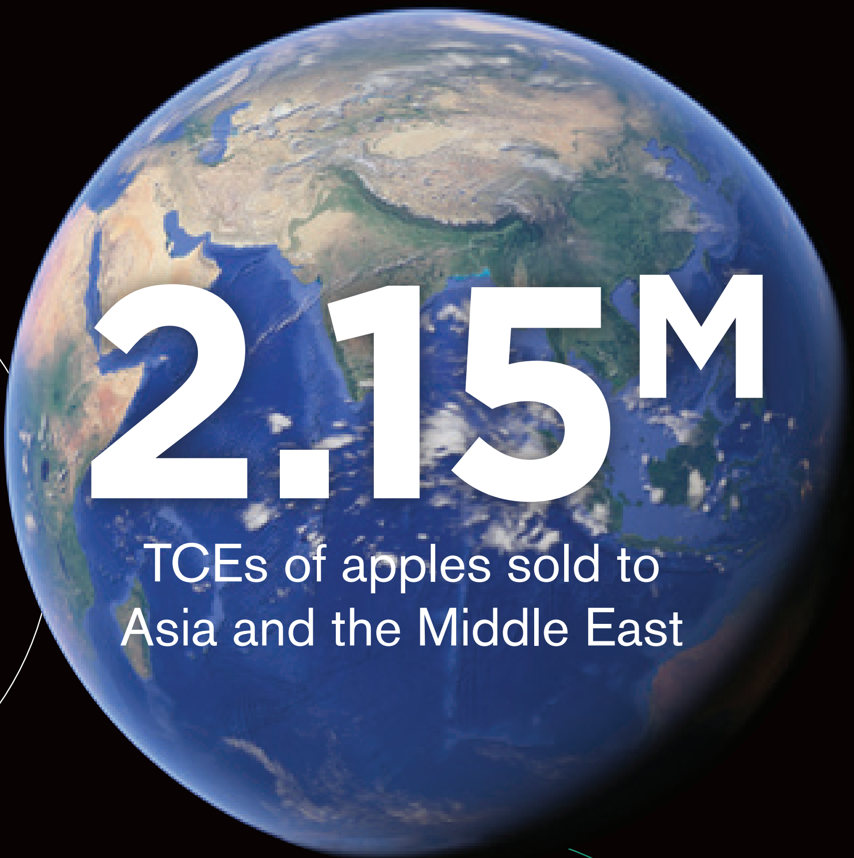
104 years and still growing

Over the past 5 years we have made a material investment in our assets, our people and our culture to lay the foundation for growth for the foreseeable future. The benefits of that investment have been accruing with 2015 being a record year for business performance.

And we have plenty of growth yet to come – in our Horticulture division we will enjoy a large increase in our productive orchard capacity over the next three years as redeveloped orchards come to full production, and in our Storage & Logistics division we will enjoy a full year of trading from our latest coldstore in Auckland as well as a number of other initiatives that came to fruition in the second half of 2015.

Scales is in a strong and exciting position with a clear path to ongoing growth.

24%
2015 ROCE



2.15M
TCEs of apples sold to Asia and the Middle East

68% earned from export sales

$300M
in revenue for the first time in Scales' history

HALF A BILLION
apples picked from Mr Apple's orchards

+20K MT
of petfood ingredients sold by Meateor

+6.1M
Litres of juice concentrate sold

1.17M M³

of meat, fish, vegetables, dairy and FMCG product loaded into our coldstores

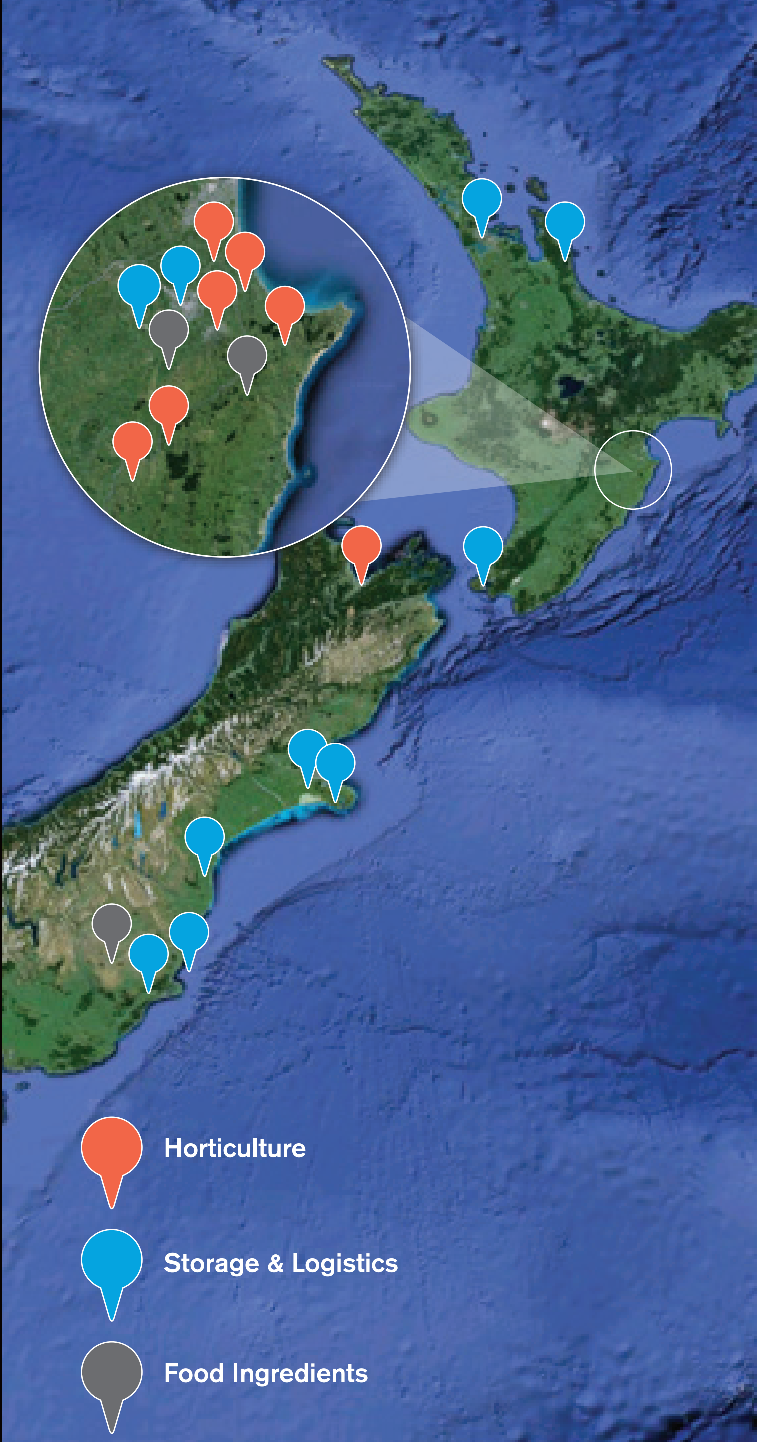
$61.4M

Underlying EBITDA

+21K

TEUs organised for international transit by Scales Logistics

Diversified by sector and region



Managing Director and Chairman's Report

It is with much pleasure that we present Scales' second Annual Report as an NZX Main Board listed company. During the year Scales continued to benefit from a series of investments, made over the last 5 years in particular, to drive improvements in revenue and profitability resulting in an Underlying EBITDA of $61.4m and Net Profit of $38.9m. These results are 54 per cent and 115 per cent ahead of 2014 respectively, and 49 per cent and 87 per cent ahead of our IPO forecasts, respectively.

$'000	2015	2014	2015 Prospectus	2014 Var %	Prospectus Var %
Underlying EBITDA*	61,405	39,849	41,248	54%	49%
Underlying Net Profit*	35,654	19,763	20,794	80%	71%
Net Profit from Continuing Operations	38,935	18,076	20,794	115%	87%

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

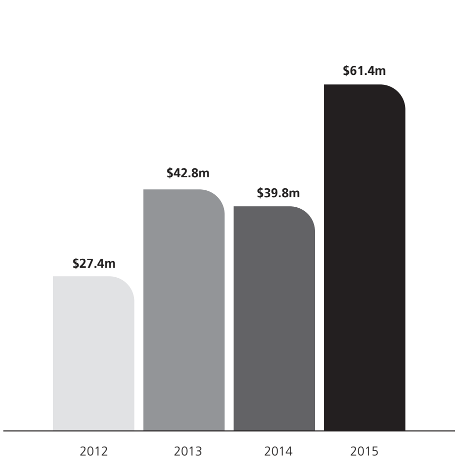
It is the hard work, loyalty, dedication, and sum of many outstanding individual efforts across the broader Scales team that allow us to continue to grow and deliver financial results like these. Each division within Scales exceeded its 2014 result and its IPO forecast. We would like to take this opportunity to acknowledge and thank the team for their work and their contribution to this outcome.

The theme of our Annual Report this year is growth. Both to acknowledge the growth Scales has achieved recently and to highlight the ongoing and future growth we aspire to achieve.

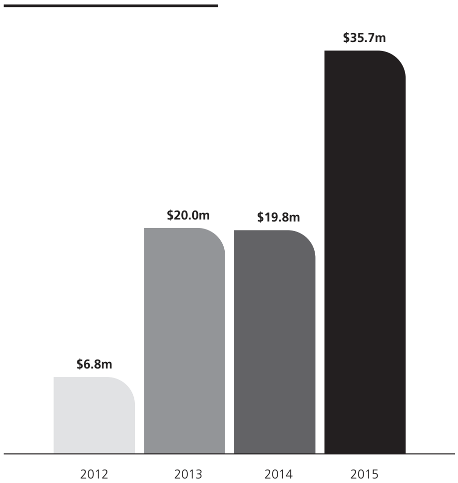
Scales has made a significant investment in our fixed assets, people, brands and market position. This investment has been highly successful, transforming Scales' profitability as demonstrated by the charts below:

Managing Director Andy Borland (L) with Chairman Jon Mayson (R) at the recent opening of the new Polarcold cold storage facility in Wiri Auckland.

Underlying EBITDA



Underlying NPAT



Our historic investment made the 2015 result possible:

Our orchard redevelopment programme is driving considerable economic returns. The programme has fundamentally changed our apple business. Where we historically provided traditional apple varieties to the UK and Europe, we now supply 159 customers in 40 countries, with Asia and the Middle East accounting for 53% of exported volume.

Our orchard management programme becomes increasingly more sophisticated every year driving increasing yields with improved size and colour characteristics, leading to superior pricing.

Our brand awareness and positioning is extremely strong – a direct result of the large investment we have been making right across the business.

Our Horticulture strategy of maintaining both diverse markets and apple varieties enhances our ability to influence outcomes and to take advantage of macro-economic shifts.

In our Storage & Logistics division, our consistent and customer-focused service culture coupled with ongoing investment in technology and capacity makes us a critical and integrally linked service provider to our key customers. These long-term relationships allow us to expand and grow with confidence.

In Food Ingredients, our investment in alternative protein supply options has led to the establishment of a successful trans-Tasman procurement strategy enabling a material uplift in sale volumes.

And we have no intention of slowing down on our investment in Scales, establishing a platform that will underwrite growth for the next 5 years. During 2015 we:

Recognised a 40% increase in premium fruit volumes from 1.04m to 1.45m TCEs. We expect premium fruit volumes will continue to increase in forthcoming seasons following historical and ongoing orchard redevelopment as well as our investment in reflective cloth to improve the colour profile of fruit.

Expanded our cold storage network with the opening of the state-of-the-art Auckland coldstore at Wiri (pictured right) in November, as well as increasing our South Island presence with two small coldstore leases in Christchurch.

Commenced a new bulk liquid storage contract at Timaru in August. This contract will run for 20 years.

Expanded our bulk liquid service capabilities with the acquisition of an inland terminal in Napier during the second half of 2015. This acquisition increases revenues, lowers costs and gives us additional space to undertake these services.

Achieved a substantial increase in petfood sales volumes. This increase reflects the quality of our product and reputation, enabled by additional supply from our trans-Tasman procurement strategy.

Looking forward Scales has a large number of organic and acquisition growth opportunities that we expect to pursue during 2016 and beyond. As always, we will remain patient and disciplined in our approach. All opportunities are carefully reviewed and subject to extensive diligence. Investment opportunities must be able to demonstrate that our return objectives across the group (specifically a 15% return on capital employed) are not compromised and furthermore that we would not be able to replicate the returns ourselves at a lower capital cost.

Shareholder Returns

Shareholders who invested in the IPO have achieved a 60 per cent[1] return on funds invested over an 18 month investment horizon to the end of February 2016. By comparison, an investment in the NZX50 would have delivered a 20 per cent return on funds invested over the same period.

Strategy

Scales' Vision:

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

Our long-term goal:

To generate a long-run average 15 per cent Return on Capital Employed (ROCE) across the portfolio.[2]

Strategies to Create Value

Strengthen existing business:

- Continue to strengthen existing divisions and businesses within those divisions by providing appropriate operating and financial support.
- Expand existing divisions through appropriate investment in growth (e.g. development of the Auckland coldstore).
- Invest in new equipment to drive cost efficiencies.

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

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

Avoid unnecessary risk. Scales will focus on long-term shareholder return and financial performance. We will not take unnecessary risks for short-term gains. We will invest to improve diversification.

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

[1] Calculated as the difference between the closing share price on 29 February 2016 plus all net dividends paid (a total of $0.205 per share) and the IPO listing price of $1.60.

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

Near and Medium Term Targets

Division	Near Term Objectives (<2 years)	Medium Term Objectives (2-5 years)
Group	**Target**	**Target**
	Align Health and Safety practices across the group to meet global best practice.	Be recognised as one of New Zealand’s safest companies to work for.
	STATUS: **ON TARGET**	STATUS: **ON TARGET**
	Meet or exceed Financial Performance projections in our Prospectus and guidance.	Deliver meaningful growth in our existing, or potentially new, divisions through organic investment and/or acquisition.
	STATUS: **PROSPECTUS EXCEEDED**	STATUS: **ON TARGET**
	Enhance current business activities by continuing to invest in their growth and unlock their potential.	
	STATUS: **ON TARGET, SIGNIFICANT INVESTMENTS MADE AND BEING CONSIDERED**	
Horticulture	**Target**	**Target**
	Continue development of Mr Apple and Diva brands and in-market investment to support increasing premium volumes.	Export over 3m TCEs of our own grown apples by 2018.
	STATUS: **ON TARGET**	STATUS: **OBJECTIVE MET IN 2015. NEW TARGET OF 3.5M TCES BY 2020**
	Deliver on redeveloped orchard production targets utilising proprietary information systems.	Continue efforts to encourage co-operation, co-ordination, and consolidation in the New Zealand pipfruit sector.
	STATUS: **AHEAD OF TARGET**	STATUS: **ON TARGET**
	Continue to develop fledgling Fruit Production Apprenticeship Programme to extend Mr Apple’s people talent pool.	Develop proprietary varieties targeted for Asia and Middle East markets.
	STATUS: **ON TARGET**	STATUS: **ON TARGET**
	Continue to foster and develop Mr Apple’s leadership of New Zealand’s Recognised Seasonal Employer scheme.	
	STATUS: **ON TARGET**	
	Increase market penetration into China through services company ‘Primary Collaboration New Zealand’.	
	STATUS: **ON TARGET**	

Division	Near Term Objectives (<2 years)		Medium Term Objectives (2-5 years)	
Storage & Logistics	**Target**		**Target**	
	Commission Auckland coldstore on time and on budget.		Continue expansion of coldstore network to encompass additional major New Zealand infrastructure hubs.	
	STATUS	OBJECTIVE MET	STATUS	ON TARGET
	Complete roll out of FMCG capable Warehouse Management software through Polarcold.		Expand Liqueo (our bulk liquid storage operation) and capabilities to reach appropriate critical mass.	
	STATUS	ON TARGET	STATUS	ON TARGET, SIGNIFICANT DEVELOPMENTS IN 2015
	Extend current FMCG business to Auckland and the South Island.		Expand our logistics offering to service the Auckland and Waikato catchments.	
	STATUS	ON TARGET	STATUS	VARIOUS OPPORTUNITIES ACTIVELY UNDER CONSIDERATION
	Merge Whakatu Coldstores and Polarcold into a single integrated operation.			
	STATUS	ON TARGET		
	Complete infrastructure build for long-term bulk edible oil storage at Liqueo's Timaru facility.			
	STATUS	OBJECTIVE MET		
	Bring recent initiative Balance Cargo to profit in FY2015 as originally forecast.			
	STATUS	OBJECTIVE MET		
Food Ingredients	**Target**		**Target**	
	Further diversify sources of protein through expansion.		Achieve increase in scale through a meaningful expansion of product volumes.	
	STATUS	ON TARGET, GOOD VOLUMES NOW ACCESSED FROM AUSTRALIA	STATUS	PROGRESSING
	Investigate new product processing opportunities in Profruit.		Expand and diversify market reach and product range.	
	STATUS	ON TARGET	STATUS	PROGRESSING
			Expand processing operations outside of New Zealand.	
			STATUS	PROGRESSING

People, Communities and the Environment

We believe that being a responsible corporate citizen includes a responsibility to look after, develop, and care for our employees, the communities in which we operate, and the environment. Furthermore, we believe that by doing so, we protect and nurture our most valuable assets to secure the sustainability of our business for many years to come.

People

Scales' most valuable asset is the team of hard-working and dedicated individuals who come to work for Scales every day. The Scales' way is about valuing everyone's input, remaining humble and always striving for the best. We like to think that Scales has a people-first culture focused on inclusion and valuing everyone's input – and we think the best indicator of this is the numerous individuals who have worked with the company for 10, 20, 30, 40 and in some cases even 50 years.

Our team is capable of delivering results that are the best in the world. Mr Apple orchards achieve fruit yields that we believe are, or are as good as, the world's best yields from a commercial orchard operation. Our Storage & Logistics team stores and arranges the shipments for a wide range of, principally New Zealand made, produce to a variety of markets to meet challenging and discerning import and food grade requirements. And our Food Ingredients team produces a consistent product that is well regarded by large multi-national customers.

Investing in our people and providing opportunities for work

It is important to us that we continue to invest in our people to bring through the next generation of business leaders as well as to provide opportunities for employment. In Mr Apple, for example, we participate in a number of internal and external initiatives:

We commenced a 4 year apprenticeship scheme in 2014 covering orchard management and post-harvest operations. The scheme includes training at the Eastern Institute of Technology and individual mentoring by senior managers. 15 Apprentices have been hired for 2016.

We have 20 employees undergoing further tertiary education. This includes the National Certificate in Horticulture and the National Diploma in Agribusiness Management.

The Seasonal Employee / Employer Development (SEED) Programme was developed for industry to meet skill shortages and develop sustainable careers. Mr Apple works closely with local Work and Income service centres to identify suitable candidates. Mr Apple is currently in its 4th year of the SEED programme and each year has taken 20 employees.

For the last 6 years Mr Apple has taken between 5 and 10 seasonal workers under the Prisoners Release to Work Scheme. Under this scheme, minimum security prisoners who are assessed as suitable to engage in paid employment are given work opportunities in order to help them gain employment on release.

Mr Apple offers literacy and numeracy courses to permanent employees, forklift training and licences, and drivers' licence training.

Health and Safety

Safety is more than the responsibility of every director, manager and team member – it is our number one priority. Every one of our employees should be able to go home at the end of each day healthy and safe.

All new staff are inducted in aspects of health and safety when they begin work. Managers and health and safety representatives receive ongoing internal and external training. External training includes NZQA accredited courses that are operated by external health and safety specialist consultants.

We are uncompromising in our commitment to the health and safety of our team and the communities within which we operate. Our pledge is to continually review and improve our processes, demonstrate best practice, empower individuals, lead by example, and promote safety – so that everyone who comes to work for Scales can be confident of their well-being.

Communities

We're committed to making a positive difference to the communities in which we work. As a key employer in the Hawke's Bay and Canterbury regions we believe we can make a difference and inspire others to follow. A key focus has been on providing employment opportunities as outlined above. Other contributions include a Mr Apple Staff Charity Fund where voluntary donations from Mr Apple staff have resulted in meaningful donations to local charitable organisations.

Environment

Scales is Agribusiness. Our future success relies on New Zealand's premium global positioning for high-quality, safe food and the ongoing productivity of our land. Therefore it is important that we both look after the land that we rely upon for our production as well as to find ways to make our operation more sustainable. We are actively investing in our businesses to limit their energy use, water take, and to remove the potential for accidental damage.

Group Financials

Financial Performance

We are very pleased to present group Underlying EBITDA of $61.4m, 49 per cent ahead of our IPO forecasts and 54 per cent ahead of 2014. With a stronger than forecast performance from all divisions, most notably our Horticulture division, Scales exceeded all key IPO forecast profit measures for 2015 and all 2014 profit measures. The individual performance of each division is discussed further in the next section.

Income Statement

	2015			2014
$'000	Actual	Prospectus		Actual
Revenue	301,410	260,393	⌃	263,262
Cost of Sales	(194,142)	(179,597)	⌄	(181,989)
Gross Margin	**107,268**	**80,796**	⌃	**81,273**
Gross Margin %	36%	31%	⌃	31%
Underlying EBITDA	**61,405**	**41,248**	⌃	**39,849**
Underlying EBIT	**51,267**	**31,618**	⌃	**30,299**
Underlying Net Profit	**35,654**	**20,794**	⌃	**19,763**
After tax impact of:				
Offer costs	-	-		(3,022)
Non-cash IFRS adjustments	3,281	-	⌃	1,335
Net Profit from Continuing Operations	**38,935**	**20,794**	⌃	**18,076**
Net Profit from Discontinued Operations	-	-		299
Profit for the Year	**38,935**	**20,794**	⌃	**18,375**
Capital employed	213,691	198,727		204,688
Return on capital employed	24%	16%		15%

Directors and management use non-GAAP profit measures when discussing financial performance in this document. The Directors and management believe that these measures provide information that is useful to stakeholders along with GAAP measures. New Zealand equivalents to international financial reporting standards (NZ IFRS) require us to value our orchards and foreign exchange contracts at the end of each year. Changes in the values of these assets are recognised as a gain or loss in our accounts. However, because we do not intend to sell our orchards, and because we intend to hold our foreign exchange contracts to completion (taking any associated gain or loss on those contracts at the point at which they are closed out), our approach is to focus on profit or loss prior to these adjustments. Furthermore, the non-GAAP profit measures discussed above are also used internally to evaluate performance of our divisions, to establish operational goals, and to allocate resources. They also represent some of the performance measures required by Scales' debt providers.

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

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

Reconciliation of Underlying EBITDA to Net Profit

	2015		2014
$'000	Actual	Prospectus	Actual
Underlying EBITDA	**61,405**	**41,248**	**39,849**
Reconciliation to GAAP information			
- Depreciation	(9,050)	(9,241)	(8,609)
- Amortisation	(1,088)	(389)	(941)
- Finance revenue	185	-	460
- Finance charges	(2,801)	(3,287)	(3,729)
- Taxation	(12,997)	(7,537)	(7,267)
Underlying Net Profit	**35,654**	**20,794**	**19,763**
Offer costs	-	-	(3,022)
Impact of IFRS revaluations:			
- Biological asset revaluation	3,031	-	1,409
- Foreign exchange contract revaluations and other adjustments	1,759	-	510
- Equity settled employee benefits	(168)	-	(65)
- Taxation	(1,341)	-	(519)
	3,281	-	1,335
Profit for the year of demerged George H Investments Limited Group:			
- Revenue	-	-	870
- Other income	-	-	-
- Other losses	-	-	-
- Impairment of non-current assets	-	-	-
- Cost of sales and expenses	-	-	(455)
- Taxation	-	-	(116)
	-	-	299
Net Profit as Reported in Financial Statements and Prospectus	**38,935**	**20,794**	**18,375**

Capital Management

Performance against Benchmarks

We monitor the Return on Capital Employed (ROCE) and EBITDA margin of each division and the group.

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

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

At a group level both ROCE at 24 per cent and EBITDA margin at 20 per cent exceeded our targets by a good margin.

Scales' Net Tangible Assets as at 31 December 2015 were $1.11 per share (31 December 2014, $1.00 per share).

Scales' earnings per share from continuing operations for the year ended 31 December 2015 were 27.9 cents per share (14.1 cents per share in the year ended 31 December 2014).

Capital Management Benchmarks

	2015		2014
	Actual	Prospectus	Actual
ROCE			
Horticulture	35%	21%	20%
Storage & Logistics	13%	12%	10%
Food Ingredients	49%	25%	38%
Group	24%	16%	15%
Long term Group target	15%		15%
Underlying EBITDA margin (excluding share of profit from associate company and joint venture)			
Horticulture	22%	15%	16%
Storage & Logistics	17%	16%	14%
Food Ingredients	13%	9%	12%
Group	20%	16%	15%

Financing

Average Net Debt[3] for the year was $32.5 million, $8.3 million below Average Net Debt during 2014 of $40.8 million. This lower debt figure was primarily due to the improved profitability achieved in 2015.

Hedging Strategy

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

In 2015, Mr Apple made approximately 59 per cent of its apple sales in US dollars, 26 per cent in Euros, 10 per cent in British pounds, and 1 per cent in Canadian dollars.[4] We have a natural hedge covering some of our US dollar exposure as all international shipping is payable in US dollars also. We take cover on the remaining expected net US dollar, Euro, British pound, and Canadian dollar exposures.

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

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

- We take foreign exchange cover for up to 48 months using a variety of foreign exchange instruments (including options and forward contracts). Scales maintains a blend of instruments. For the next 12 months, about 80 per cent of Mr Apple's expected net foreign exchange exposure is covered.
- We also have interest rate swaps covering interest on our term borrowings.

[3] Average Net Debt is calculated as the term debt balance plus the average net working capital facility balance (calculated as the average of the net working capital facility balance as at 30 June 2015 and 31 December 2015).
[4] The balance was made in NZD.

Dividend

A final 2014 fully imputed cash dividend of 7 cents per share (a gross amount of 9.7 cents per share) was paid on 10 July 2015. A fully imputed interim 2015 cash dividend of 6.5 cents per share, and a fully imputed special 2015 cash dividend of 4 cents per share were declared in December 2015 and paid on 20 January 2016 (collectively a gross amount of 14.6 cents per share). Our expectation is to declare a final fully imputed cash dividend of 6.5 cents per share in respect of 2015 in May 2016, for payment in July 2016. As always, any dividend is subject to Board approval. It is standard practice for the Directors to consider all aspects of the Group's performance and financial position prior to declaring any dividend.

Capital Expenditure

Operational capital expenditure was generally in line with, albeit slightly below, the 2014 spend and slightly higher than our IPO forecast.

During 2015 we invested nearly $11.3 million in the future growth of Scales to improve our market position and earnings potential.

Investments during 2015 included:

- Acquisition of the bulk liquid processing terminal in Napier.
- Plant and equipment for the Auckland coldstore (as forecast in our Prospectus).
- IT and refrigeration upgrades in the Storage & Logistics division.
- Additional reflective cloth and bin capacity in the Horticulture division.
- Redevelopment of a further 11 hectares of lower-returning orchard.

Capital Expenditure

	2015		2014
$'000	Actual	Prospectus	Actual
Operational capital expenditure			
Horticulture	1,905	1,800	2,519
Storage & Logistics	2,367	1,840	1,776
Food Ingredients	220	297	227
Other	39	80	38
Total operational capital expenditure	**4,530**	**4,017**	**4,560**
Growth capital expenditure			
Horticulture	3,721	1,000	2,692
Storage & Logistics	7,557	5,631	3,798
Food Ingredients	-	-	-
Total growth capital expenditure	**11,278**	**6,631**	**6,490**
Total capital expenditure	**15,809**	**10,648**	**11,050**

Outlook

Scales is very well positioned to continue to enjoy long-term sustainable growth supported by historical and current investment. The business enjoyed an exceptional 2015 in many respects, but this result would not have been possible without our people and the historical investments we made in our assets, resources, and brand positioning. Furthermore, large developments in the breadth of our operations – specifically in our Storage & Logistics division – were only recognised towards the end of 2015. We expect to show an increase in contribution from this division as we realise a full year of these investments through 2016.

The 2016 year has started positively. Whilst acknowledging that apple picking has only just begun, the market dynamic for our apples remains supportive, and we expect to be able to realise an improvement over 2015 exchange rates. Our storage facilities continue to be well utilised and early sales of petfood have been positive.

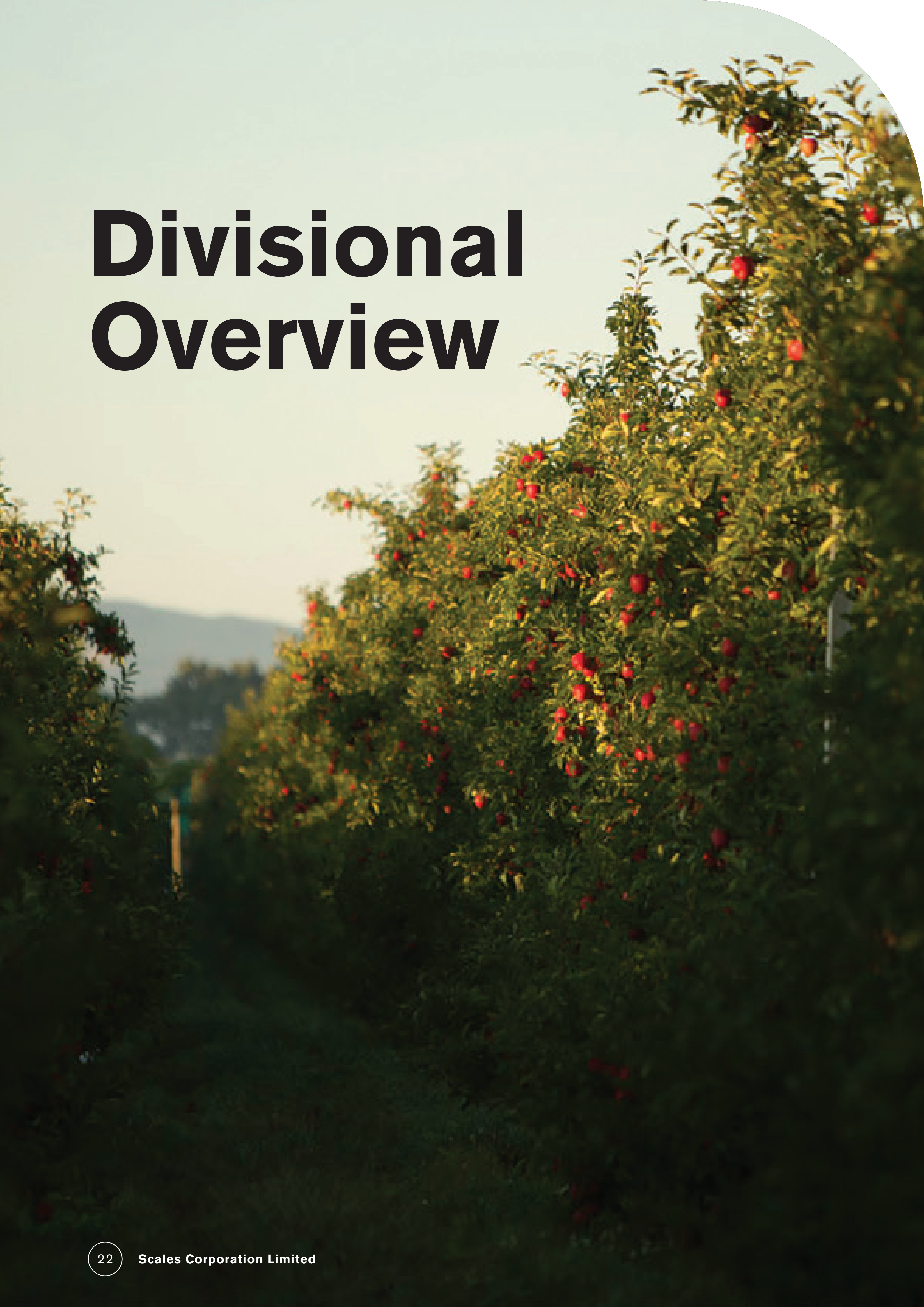
We would like to thank all of our management and staff, fellow Directors, suppliers and of course our customers. Scales greatly appreciates your collective support and involvement in our 104th year of trading.

Jon Mayson
Chairman

Andy Borland
Managing Director

16 March 2016

Divisional Overview



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

Horticulture

Our Horticulture division largely encompasses Mr Apple, New Zealand's largest fully vertically integrated apple business, in addition to a ~73 per cent stake in Fern Ridge Produce, a fresh produce exporter in Hawke's Bay.[5]

We are pleased to present a very strong performance from our Horticulture division. During 2015:

- The division achieved an Underlying EBITDA of $40.0 million, 66 per cent above our IPO forecasts.
- Mr Apple sold 4.17 million TCEs to 159 customers in 40 countries.
- The orchard team delivered a record crop, with total own-grown apple volumes 16 per cent ahead of IPO forecasts and 11 per cent above our previous highest crop.
- The sales team delivered a weighted average sale price across all exported apples that was 19 per cent ahead of IPO forecasts.

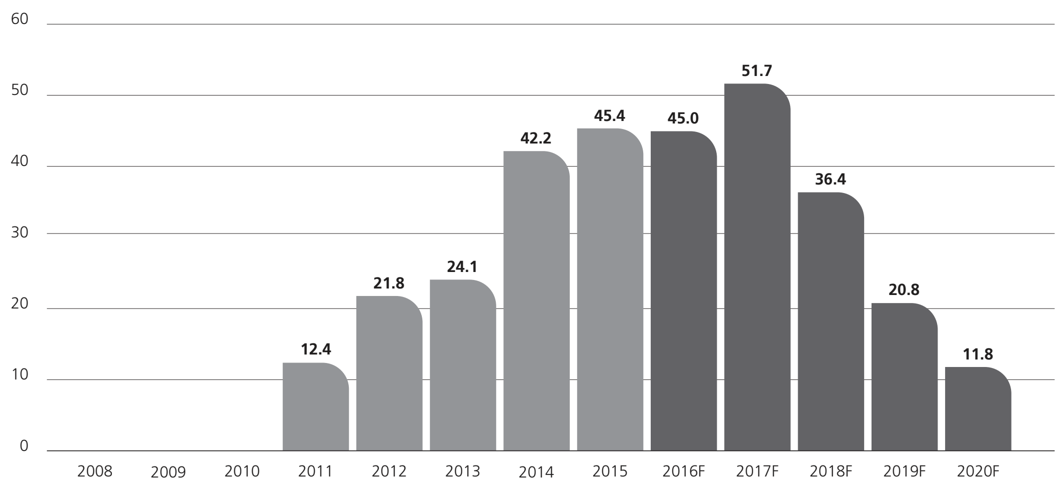
Orchard Redevelopment

Over the past 8 years a significant investment in orchard redevelopment has been made. This investment has seen 314 hectares redeveloped into premium varieties targeted at Asian and Middle Eastern consumers.

Redeveloped orchards gradually come into full production between 3 and 6 years after redevelopment. The peak period of recent orchard redevelopment occurred between 2011 and 2012 when 135 hectares were redeveloped. This orchard is now between 4 and 5 years old and experiencing large increases in effective productivity.

During 2016 and 2017 Mr Apple will recognise significant uplifts in its effective productive orchard. This will be equivalent to about 97 hectares of fully productive orchards (or about 11 per cent of the fully mature equivalent planted orchard in 2015). This orchard is planted in premium varieties and will contribute additional export volumes of an estimated 250,000 TCEs.

Annual Increase in Effective Productive Orchard (ha)



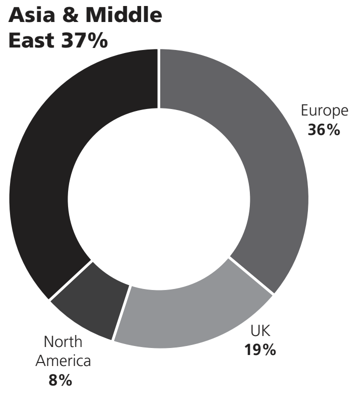
Orchard redevelopment continues. During 2016 we expect to develop more than 40 hectares of orchard, of which approximately 27 hectares are either bare land or land that is not planted in apples. The planned redevelopment includes new proprietary varieties.

[5] *During 2015, our shareholding in Fern Ridge Produce was 50%. This was increased to 72.88% in January 2016.*

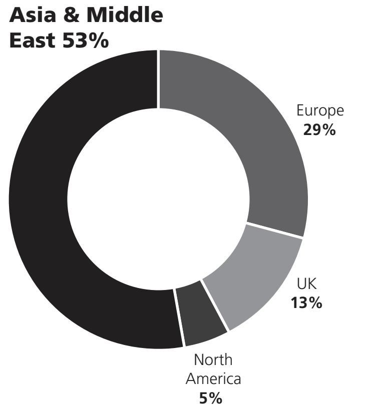
Markets

Our orchard redevelopment has been focused towards varieties that are highly sought after in the Asian and Middle Eastern markets. As shown below, the increased proportion of premium fruit available during 2015 resulted in a material increase in the relative sales to these markets. As the orchard continues to mature we expect to further increase our sales to this region:

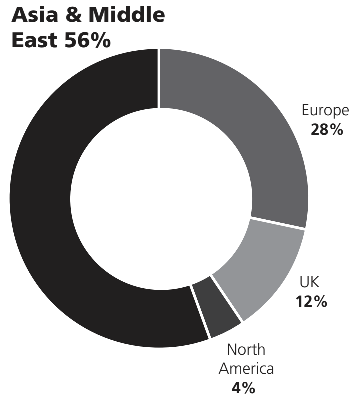
Sales by Region (TCEs) FY14A



Sales by Region (TCEs) FY15A



Sales by Region (TCEs) FY18F



Asia and the Middle East are markets for which New Zealand food producers, and specifically Mr Apple, enjoy considerable advantages:

- The market includes a substantial part of the world's population with a proven propensity to consume apples.
- Most of the region is not well suited to producing apples, and where they do, production is limited to a narrow range of traditional varieties.
- The market is not one, but a wide range of much smaller markets reducing our exposure to any single customer or the macroeconomic factors influencing one, or a small handful of markets.
- New Zealand produce enjoys a competitive advantage owing to its clean and green image, and reputation for quality.
- The physical distance between Asia and New Zealand is approximately half of that between New Zealand and the UK or Europe. This results in material savings in shipping and reduced time in transit allowing us to respond more readily to market signals.
- Our premium varieties are well aligned to the discerning palette of those consumers – and the varieties are either protected or difficult to produce outside of New Zealand.
- We have invested heavily in supporting the Mr Apple brand through Asia. In September 2015 we exhibited at the Asia Fruit Logistica Conference in Hong Kong for the second year. Our bright red and innovative displays resulted in a steady stream of visitors throughout the 3 days of the conference establishing and solidifying sales leads.

Financial Performance and Key Operating Statistics

Summary Performance

The table below shows the financial performance of our Horticulture division for 2014 and 2015 as well as the 2015 IPO forecasts:

Horticulture

	2015		2014
$'000	Actual	Prospectus	Actual
Revenue	**178,126**	**158,881**	**158,808**
Sea freight & transport costs	(20,204)	(25,828)	(23,191)
Post-harvest processing	(27,260)	(21,769)	(22,606)
Payments to external growers	(28,262)	(31,071)	(31,094)
Orchard costs	(28,822)	(24,451)	(24,643)
Other direct costs	(8,959)	(10,547)	(11,193)
Cost of sales	**(113,507)**	**(113,666)**	**(112,727)**
Gross profit	**64,619**	**45,215**	**46,081**
Gross profit margin	36%	28%	29%
Other income, administration and operating expenses	(25,442)	(21,508)	(22,624)
Underlying Mr Apple EBITDA	**39,178**	**23,707**	**23,457**
Share of Fern Ridge Produce net profit after tax	814	342	459
Underlying Horticulture EBITDA	**39,992**	**24,049**	**23,916**
Depreciation and amortisation	(4,598)	(3,951)	(4,360)
Underlying Horticulture EBIT	**35,393**	**20,098**	**19,556**
IFRS Biological asset and foreign exchange contract revaluations	4,663	-	2,029
Horticulture EBITDA	**44,655**	**24,049**	**25,945**
Horticulture EBIT	**40,057**	**20,098**	**21,585**
Capital employed	100,221	96,659	99,454
Return on capital employed	35%	21%	20%

Our Horticulture division delivered a very strong performance during 2015. Both volumes and prices were above expectations resulting in an Underlying EBITDA that was 66 per cent ahead of our IPO forecasts and 67 per cent ahead of 2014.

This excellent result marks the third successive result of strong and improving profitability. Picking, packing, and co-ordinating the sale of half a billion apples is no small feat. From the seasonal workers who carefully pick our fruit, to our sales and marketing team who constantly raise the bar to make Mr Apple the apple brand to have, we would like to acknowledge the effort from the team.

Summary Performance (continued)

In addition to the outstanding performance within Mr Apple, our associate company Fern Ridge Produce also delivered a strong improvement in profitability with our half share of profits increasing from $0.5 million in 2014 to $0.8m million in 2015. In January 2016, Scales increased its shareholding in Fern Ridge Produce from 50 per cent to 73 per cent. This business continues to be a reliable additional brand to support the Group's Horticulture division.

Non-cash IFRS adjustments, before tax, of $4.7 million ($2.0 million in 2014) relate to gains on revaluation of the orchards ($3.0 million, $1.4 million in 2014) and revaluation of exchange rate contracts ($1.7 million, $0.6 million in 2014). Note that gains and losses on exchange rate contracts closed out during the year are a normal part of our business and are included in the calculation of Underlying EBITDA.

The following tables highlight various Key Operating Statistics that we monitor and report against. During 2015, key variations from our IPO forecasts were:

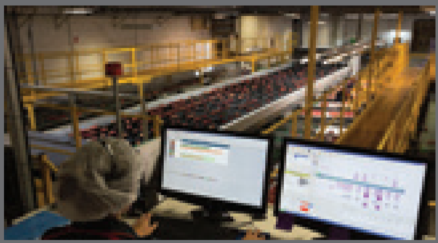
- **Favourable variations:**
  - Better than forecast prices. Both premium and traditional varieties enjoyed an increase over 2014 and IPO forecast FOB prices. This was driven by the strong market demand for our apples, changes in mix (with a higher proportion of higher valued varieties within the 'premium' and 'traditional' groupings), lower shipping costs owing both to a general decrease in global shipping rates as well as a higher relative proportion of sales to nearer markets, and exchange rates.
  - Higher than expected export volumes of Mr Apple own-grown fruit (438,000 TCEs higher than IPO forecasts and 403,000 TCEs higher than 2014).
  - Orchard growing economies of scale resulting in lower growing costs on a $ / TCE basis.
  - Receipts from hail insurance. The 2015 crop was affected by hail in December and January. But for this hail, export volumes would likely have been higher.
- **Unfavourable variations:**
  - Lower than anticipated external grower volumes (268,000 TCEs lower than IPO forecasts). External grower volumes from Nelson growers in particular were affected by a significant hail event.
  - Higher post-harvest costs on a $ / TCE basis. The 2015 season was slightly compacted with the start of fruit picking delayed by approximately 2 weeks. This factor, combined with the much higher volumes, led to increased costs such as overtime.

Orchard Statistics

		2015		2014	2013	2012	2011	2010
		Actual	Prospectus					
Orchard								
Total planted orchard (at time of harvest)*	Ha.	1,052	1,049	1,037	1,028	852	803	802
Fully mature equivalent planted orchard	Ha.	902	898	871	858	716	703	684
Apples picked (Mr Apple orchards)	TCE 000s	4,433	3,708	3,668	3,890	2,921	3,168	2,701
Apples packed (Mr Apple + external growers (Hawke's Bay))	TCE 000s	3,809	3,254	3,327	3,419	2,786	2,721	2,431
Exported volume								
Mr Apple	TCE 000s	3,155	2,717	2,752	2,833	2,144	2,001	1,868
External growers	TCE 000s	1,019	1,287	1,218	1,340	1,500	1,682	1,429
Total	**TCE 000s**	**4,174**	**4,004**	**3,970**	**4,173**	**3,645**	**3,683**	**3,297**
Mr Apple 'packout' %	%	71%	73%	75%	73%	73%	63%	69%
Total NZ production	TCE 000s	18,360		17,259	17,776	15,836	16,904	14,749
Mr Apple own grown volume share of NZ production	%	17.2%		15.9%	15.9%	13.5%	11.8%	12.7%

**Planted orchard at the end of 2015 was 1,042 hectares.*

More than half a billion apples were picked this year from over 1,050 hectares of Mr Apple's planted apple orchard. With an average of 113 apples in a TCE, this equates to a gross production of more than 4.4 million TCEs from which 3.15 million TCEs were exported. Our share of the national crop increased from 15.9 per cent in 2014 to 17.2 per cent in 2015.



Using Technology to Access Improved Returns

A high speed apple grader in our largest packhouse, first used in the 2013 season, has changed the game for us in being able to maximise export volumes:

- The high speed apple grader materially lowers the cost of grading and screening apples to determine their 'export worthiness'. This used to be done by hand.
- Previously, fruit from orchards that may have been damaged due to weather events may have been sent straight to alternative uses (such as juice) which has a lower return.
- Now, marginal crops can be screened for little incremental cost – increasing the effective export yield from our orchards. Reject apples are kept and redirected to alternative uses resulting in the maximum return possible.

Volumes and Prices

The table below shows volumes and prices (on a NZD FOB basis) for 2014 and 2015 as well as the 2015 IPO forecasts:

Varietal Performance - Mr Apple Volumes

	2015			2014
Volumes by Variety (TCE 000s)	Actual	Prospectus		Actual
Premium Varieties				
NZ Queen	214	230		134
Pink Lady	282	269		245
Red Sports (Fuji and Royal Gala)	831	645		574
Other	127	92		83
Total	**1,454**	**1,236**		**1,036**
Growth	40%			(6%)
% premium	46%			38%
Traditional Varieties				
Braeburn	705	656		789
Royal Gala	475	402		506
Other	521	423		421
Total	**1,701**	**1,481**		**1,716**
Growth	(1%)			(1%)
Total Mr Apple owned and leased orchards	**3,155**	**2,717**		**2,752**
Growth	15%			(3%)
Prices by Variety (NZD / TCE (FOB))				
Weighted average price for premium varieties	37.8	30.4		32.8
Weighted average price for traditional varieties	28.0	24.6		24.8
Total weighted average price	32.5	27.2		27.8

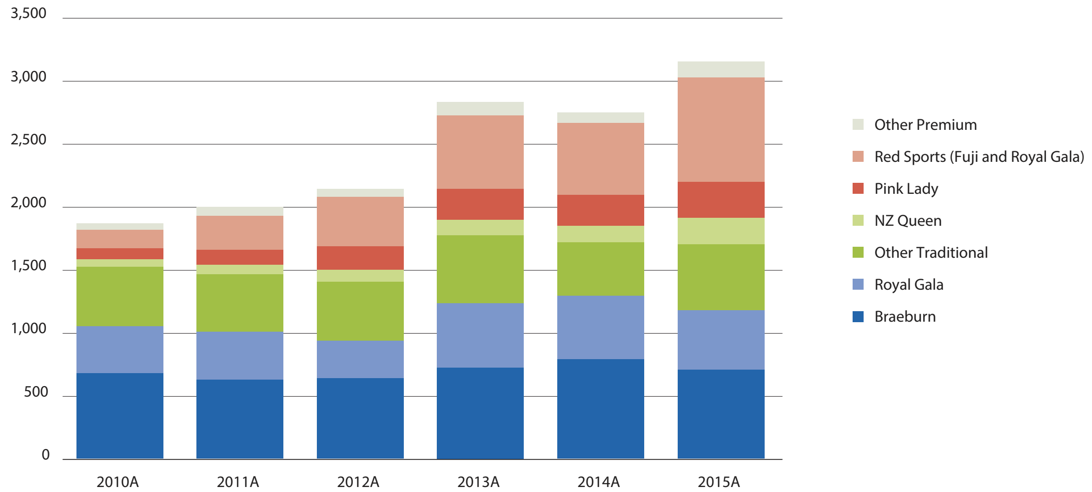
Volumes and Prices (continued)

Premium varieties

During 2015 we exported 1.45 million TCEs of premium fruit for a weighted average price of $37.80 per TCE, 15 per cent higher than achieved in 2014. Consistent improvements in prices against a backdrop of substantial volume increases (total premium volumes have increased by approximately 3.2x since 2010) bodes particularly well for our horticultural division with further volume anticipated to come into production as historical orchard redevelopment matures.

The Mr Apple team is particularly focused on continuing to develop the market for our premium varieties with a focus on branding, markets, penetration, and growing techniques to deliver the apple characteristics (size, sugar levels (brix), and colour) sought after by the most discerning customers.

Volumes by Variety (TCE 000s)



Traditional varieties

Traditional varieties also performed well with total production in line with 2014 volumes (notwithstanding the redevelopment of approximately 18 hectares of traditional orchard following the 2014 crop). Over time volumes of traditional varieties are likely to either remain at, or decrease below (should further redevelopment take place), 2015 levels. Furthermore, a much higher proportion of royal gala and fuji apples met the colour characteristics to qualify for premium labelling – a factor influenced significantly by our investment in reflective cloth.

Traditional prices also held up well, with prices on average 13 per cent higher than 2014. This reflects both a change in the relative mix of traditional varieties sold as well as improvements in pricing associated with movements in the exchange rate.

Other Performance Drivers

The following table summarises weighted average exchange rates and costs per unit for 2014 and 2015 as well as the 2015 IPO forecasts.

Exchange Rates

With the exception of the NZD:USD exchange rate, all rates were generally in line with 2014 and IPO forecasts reflecting our hedged position and general rate movements. The NZD:USD experienced a more significant shift during 2015 that we benefitted from. Mr Apple continues to manage its foreign exchange exposure to lock in favourable movements in rates and minimise the impact of sudden changes on a year to year basis.

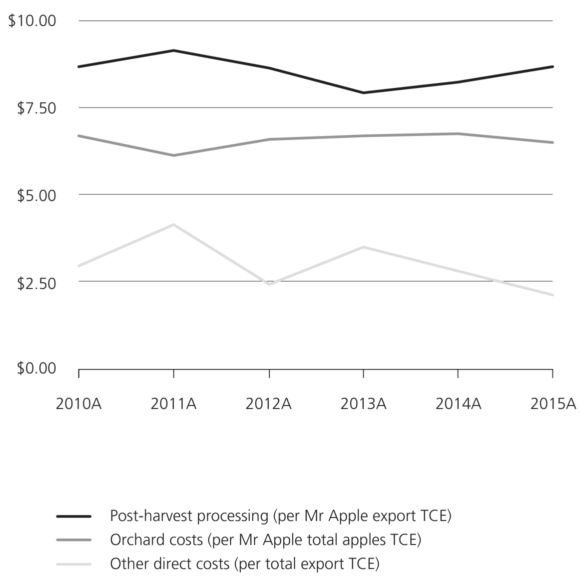
Other Performance Drivers

	2015			2014
	Actual	Prospectus		Actual
Exchange Rates				
NZD:USD	0.73	0.83	⌃	0.82
NZD:EUR	0.60	0.60		0.60
NZD:GBP	0.48	0.50	⌃	0.49
NZD:CAD	0.86	0.88	⌃	0.90
Cost Control				
Costs per Unit				
Sea freight & transport costs (per total export TCE)	4.8	6.5	⌃	5.8
Post-harvest processing (per Mr Apple export TCE)	8.6	8.0	⌄	8.2
Orchard costs (per Mr Apple total apples TCE)	6.5	6.6	⌃	6.7
Other direct costs (per total export TCE)	2.1	2.6	⌃	2.8

Costs

As shown on the chart below, direct costs per TCE have remained fairly steady over a prolonged period, with scale efficiencies offsetting underlying cost increases.

Direct Cost per TCE



2016 Outlook

The Mr Apple brand continues to be highly sought after in international markets with demand frequently outstripping supply. This reflects the excellent work across the business to grow and sell what we believe to be the world's best apples.

Key highlights for 2016:

- Whilst still early in the season, current expectations support another strong crop, with a size and varietal mix that looks good.
- The market dynamic for Asia and the Middle East remains supportive.
- Exchange rate contracts in place would support an overall improvement in exchange rates realised over 2015.
- International shipping costs remain competitive.
- We will recognise an increased share in earnings from Fern Ridge Produce following the increase in our share of that company to ~73 per cent in January 2016.

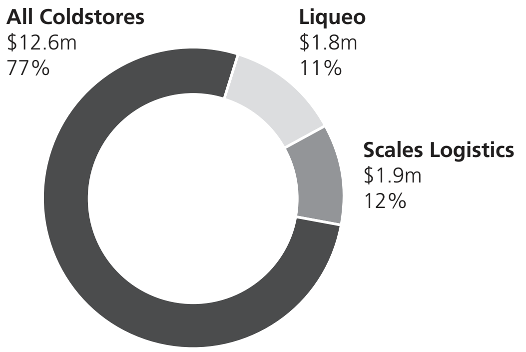
Storage & Logistics

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

We specialise in the hygienic and temperature controlled storage of produce and can also arrange international freight giving our customers end-to-end confidence that their product will arrive fresh, on time, and complying with all relevant import rules and regulations. This division comprises our coldstore businesses Polarcold and Whakatu Coldstores, bulk liquid storage company Liqueo, and our freight forwarding business Scales Logistics which includes airfreighting operation Balance Cargo.

Our Storage & Logistics division is characterised by extremely high barriers to entry, and predictable annual revenues and earnings. Whilst we will experience some movement from year to year due to the timing of the various primary sector production seasons (concentrated around the New Zealand summer), over an extended period this division has generated highly reliable earnings. As shown in the chart below, the storage components of the division (being the cold storage and bulk liquid storage business) collectively make up 88 per cent of the divisional EBITDA:

Divisional Components of EBITDA ($ millions)



Divisional Developments

During 2015 in particular, we made a material investment in the growth of our Storage & Logistics division underwriting a sustainable and recurring increase in financial performance. This investment has changed the shape of our Storage & Logistics division materially:

- In November our new state-of-the-art Auckland coldstore opened for business. This is a highly sophisticated and purpose built facility driving a material 16 per cent improvement in our overall cold storage capacity.
- On 31 August 2015 our bulk liquid storage business Liqueo acquired the assets of a liquid processing and handling business at Ahuriri, Napier. This acquisition provides us with additional revenues and increased space to develop the services component of Liqueo.
- We completed a major upgrade of the Timaru bulk liquid storage terminal. This coincided with the commencement of a 20 year edible oil storage contract in August.
- Airfreighting operation Balance Cargo achieved a 79 per cent increase in airfreight tonnes managed, to 2,832 MT. Balance Cargo has rapidly developed from a zero-base to become a significant player in its field.

Technology in the Auckland Coldstore

Our new Auckland coldstore employs the latest technology to help reduce costs, increase the effectiveness of our space, and limit our impact on the environment:

- We have installed a rainwater collection system that will collect over 98% of our annual water requirement, saving the equivalent of 30,000 litres a day or four olympic sized swimming pools a year in potable water.
- We use the latest in pallet stacking robots which allows us to store pallets in blocks that are up to 13 pallets deep (traditional coldstores generally will only permit 2 pallet deep bays on either side of a central aisle). This significantly cuts down on aisle space and materially improves the effectiveness of the store.
- Power usage is controlled via a highly sophisticated energy management programme that preserves product integrity whilst limiting our power consumption.
- We have installed LED lights that not only save on energy, but are fitted with individual motion sensing sensors, meaning that only the lights that are needed will be turned on.

Financial Performance

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

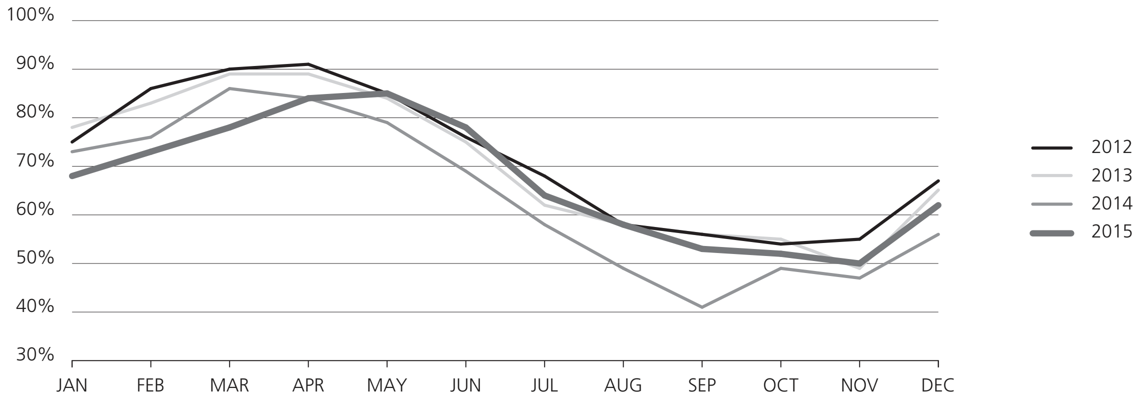
Storage & Logistics

		2015			2014
		Actual	Prospectus		Actual
Key Operational Metrics					
Polarcold and Whakatu Coldstores					
Total available refrigerated coldstore space (at end of year)	m3 000s	721.6	702.3	⌃	606.6
Liqueo					
Installed capacity of all tanks	MT	22,500	22,200	⌃	22,200
Average capacity under fixed lease	MT	10,655	12,530	⌄	9,780
Scales Logistics					
TEUs shipped	TEUs	21,125	not disclosed		17,282
Airfreight tonnes managed	MT	2,832	not disclosed		1,580
Profitability ($'000)					
Revenue		95,622	93,374	⌃	90,609
Cost of sales		(61,541)	(62,890)	⌃	(62,317)
Gross profit		**34,081**	**30,484**	⌃	**28,292**
Gross profit margin		36%	33%	⌃	31%
Administration, operating expenses and other gains and losses		(17,787)	(15,674)	⌄	(15,969)
Underlying EBITDA					
Coldstores		12,584	11,741	⌃	10,260
Liqueo		1,761	1,986	⌄	1,278
Scales Logistics		1,931	1,083	⌃	784
Underlying Storage & Logistics EBITDA		**16,276**	**14,810**	⌃	**12,323**
Total depreciation and amortisation		**(4,993)**	**(5,008)**	⌃	**(4,569)**
Underlying Storage & Logistics EBIT		**11,283**	**9,802**	⌃	**7,754**
IFRS foreign exchange hedge revaluations		18	-	⌃	-
Storage & Logistics EBITDA		**16,294**	**14,810**	⌃	**12,323**
Storage & Logistics EBIT		**11,301**	**9,802**	⌃	**7,754**
Capital employed		83,809	84,457	⌃	78,065
Return on capital employed		13%	12%	⌃	10%

In aggregate, the division delivered $16.3m in EBITDA, 32 per cent above 2014 and 10 per cent ahead of our IPO forecasts. All three components to the Storage & Logistics division delivered an EBITDA result ahead of 2014, and the coldstores and Scales Logistics delivered results that were ahead of our IPO forecast. Highlights across the division include:

- $12.6 million of EBITDA from our combined coldstore operations, 23 per cent ahead of 2014 ($10.3 million). This was a very strong result from the coldstores and reflected:
  - $13.7 million in EBITDA from the existing Polarcold and Whakatu Coldstore businesses, 33 per cent ahead of 2014.
  - Improved utilisation. As shown in the following chart, utilisation of the coldstores was in line with historical patterns.
  - A return to more ordinary durations of product in store. During 2014 market factors led to unusually high product turn-around cycles with goods spending an average of 2.3 months in store. During 2015 goods spent a more average 2.7 months in store.
  - We loaded in 1.17m cubic metres of product, 3.9 per cent up on 2014.

End of Month Coldstore Utilisation (excluding Auckland)



- Our logistics operation delivered an outstanding result, with EBITDA up by nearly 150 per cent on 2014 to $1.9 million. This result can be attributed to strong growth both in our traditional seafreight operations, with TEUs managed up by 22 per cent, and very strong growth in our airfreighting operation with volumes handled by up 79 per cent.
- Liqueo also enjoyed a strong increase in EBITDA, up 38 per cent to $1.8 million. This was due to the commencement of the long-term oil storage contract, additional business from the bulk processing facility acquisition, and general increases in volumes handled.

2016 Outlook

The Storage & Logistics division is poised for another strong year of growth in 2016 as we recognise a full year of contribution from a number of significant developments made during 2015. Key drivers for the coming year include:

- A material contribution to profit with a full year of trading from the Auckland coldstore. The Auckland coldstore is expected to move into profit during 2016.
- A change in the shape of our North Island bulk liquid services as we transfer processing from our existing inland processing and storage terminal at the Whakatu Industrial Park to the newly acquired inland services hub in Ahuriri. This site is considerably larger, unlocking cost efficiencies and enhanced revenues, as well as being closer to the Napier port.
- We expect to commence a material IT upgrade of our South Island coldstores. This follows an upgrade of our North Island coldstores' warehouse management system in 2014. This upgrade is anticipated to materially improve administrative efficiency as well as to improve efficiencies around product receipt and dispatch. At the conclusion of the upgrade, our South Island coldstores will be capable of providing storage solutions to FMCG customers as well as its traditional bulk customers, laying a foundation for ongoing growth in the division.

Food Ingredients

Our Food Ingredients division converts agricultural by-products into valuable food commodities.

Overview

Meateor processes and sells pet food ingredients for the global pet food industry; and Profruit, in which Scales has a 50 per cent shareholding, is an apple and kiwifruit juice concentrate manufacturer located in the Hawke's Bay.

Meateor provides ingredients used in the increasingly lucrative petfood industry, an industry that is now estimated to be worth US$70 billion globally, and which recorded solid underlying growth in sales of 4 per cent during 2015.

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

Financial Performance

Whilst this division set the bar extremely high in 2014, it is with considerable pleasure that we can report another year of exceptional growth from this division. In aggregate, Food Ingredients produced an Underlying EBITDA of $7.6 million, 83 per cent ahead of our IPO forecasts and 33 per cent ahead of 2014:

Food Ingredients

	2015			2014
	Actual	Prospectus		Actual
Key Operational Metrics				
Meateor - Sales volumes (tonnes)	20,220	15,080		16,399
Profruit - Sales volumes (thousands of litres)	6,117	not disclosed		4,642
Profitability ($'000)				
Meateor revenue	48,570	34,794		37,217
Meateor cost of sales	(39,984)	(29,558)		(30,308)
Gross profit	**8,586**	**5,236**		**6,909**
Gross profit margin	18%	15%		19%
Administration, operating expenses and other gains and losses	(2,486)	(2,186)		(2,267)
Underlying Meateor EBITDA	**6,099**	**3,050**		**4,642**
Share of Profruit net profit	1,454	1,070		1,042
Underlying Food Ingredients EBITDA	**7,554**	**4,120**		**5,684**
Depreciation and amortisation	(499)	(599)		(559)
Underlying Food Ingredients EBIT	**7,054**	**3,521**		**5,125**
IFRS foreign exchange hedge revaluations	109	-		(75)
Food Ingredients EBITDA	**7,663**	**4,120**		**5,609**
Food Ingredients EBIT	**7,163**	**3,521**		**5,050**
Capital employed	14,391	13,962		13,512
Return on capital employed	49%	25%		38%

Other highlights of this result include:

- Meateor delivered an EBITDA that was 100 per cent higher than our IPO forecasts and 31 per cent higher than 2014.
- Our share of earnings from juice concentrate manufacturer, Profruit, was 36 per cent ahead of IPO forecasts and 40 per cent ahead of 2014.
- Meateor delivered an all-time record sales volume of more than 20,220 MT. This was an increase of 34 per cent over our IPO forecasts and 23 per cent ahead of the very strong sales result in 2014.
- Profruit processed a record 56,768 MT of apples and kiwifruit for the 2015 year which produced another record 6.65 million litres of juice concentrate, up 33 per cent on 2014. This was only made possible by the Profruit team running the factory 24 x 7 for the majority of the year. This was a fantastic effort from the team at Profruit.

2016 Outlook

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

We continue to review ways in which we can provide our customers with a better product or comparative advantage and will continue to explore ways in which we can grow the business. We believe there are a number of opportunities available to the division.

Leadership Profiles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Board Profiles (as at 16 March 2016)

1. Jon Mayson, Non-Executive 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 the CEO of the Port of Tauranga from 1997 to 2005 and oversaw the Port's expansion to become New Zealand's largest export port. He is also Chairman of Fronde Systems Group Limited, C3 Limited, Ziwipeak Limited, Martin Aircraft Company Limited and Titanium Technologies New Zealand, and was previously Chairman of New Zealand Trade and Enterprise. Jon is also a Director of Ports of Auckland Limited, Te Arawa Group Holdings Limited and Chiefs Rugby Club GP Limited. He was made a Companion of the New Zealand Order of Merit (CNZM) in 2006 for his services to the shipping industry and export. Jon is a member of Scales' Nominations and Remuneration Committee.

2. 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, Chairman of both Primary Collaboration New Zealand Limited and Primary Collaboration New Zealand (Shanghai) Co. Limited, and has an involvement with Central Otago deer and beef cattle breeding and fattening farming company Loganbrae Limited.

3. Tim Goodacre, Non-Executive Independent 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 Featherston Resources Limited and is the 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. Tim is a member of Scales' Nominations and Remuneration Committee.

4. Nick Harris, Non-Executive Independent Director

Nick was elected to the Board in 2014, having been appointed a Director of both Scales' Storage & Logistics division and Meateor in 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 Chairman of the Canterbury Hockey Association. Nick is a member of Scales' Audit and Risk Management Committee.

5. 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 Chairman of Scales' Nominations and Remuneration Committee and is a member of Scales' Audit and Risk Management Committee.

6. Alan Isaac, Non-Executive Independent Director

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

Management Profiles

Andy Borland, Managing Director

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

Steve Kennelly, Chief Financial Officer

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

Andrew van Workum, CEO Mr Apple

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

Stephen Foote, CEO Whakatu Coldstores and Polarcold

Stephen has been with the Whakatu Coldstores' group of companies in various management roles for 22 years. Prior to joining Whakatu Coldstores, Stephen worked for Dominion Breweries and had interests in orcharding in Hawke's Bay.

John Sainsbury, CEO Meateor

John has been with Meateor in various management roles for the last 15 years. Prior to that, John worked in senior management, marketing and operational roles in the United States. John was appointed CEO of Meateor Foods in March 2015.

Kent Ritchie, CEO Scales Logistics

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

Kevin Cahill, Executive Director Liqueo

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

Financial Statements

Contents

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SCALES CORPORATION LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Scales Corporation Limited and its subsidiaries ('the Group') on pages 39 to 74, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement 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. 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 Consolidated Financial Statements

The Board of Directors are responsible on behalf of the company for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 consolidated 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 services and other assurance services, we have no relationship with or interests in Scales Corporation Limited or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Opinion

In our opinion, the consolidated financial statements on pages 39 to 74 present fairly, in all material respects, the financial position of Scales Corporation Limited and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Deloitte

Chartered Accountants

24 February 2016
Christchurch, New Zealand

This audit report relates to the consolidated financial statements of Scales Corporation Limited for the year ended 31 December 2015 included on Scales Corporation Limited's website. The Board of Directors is responsible for the maintenance and integrity of Scales Corporation Limited's website. We have not been engaged to report on the integrity of the Scales Corporation Limited's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 24 February 2016 to confirm the information included in the audited consolidated financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

	NOTE	2015 $'000	2014 $'000
Continuing operations:			
Revenue	B1	301,410	263,262
Cost of sales	B2	(194,142)	(181,989)
		107,268	**81,273**
Share of profits of investments accounted for using the equity method	C3	2,268	1,501
Other income	B3	4,977	2,089
Administration and operating expenses	B2	(48,486)	(43,160)
Offer costs	B2	-	(3,022)
EBITDA		**66,027**	**38,681**
Amortisation		(1,088)	(941)
Depreciation	C2	(9,050)	(8,609)
EBIT		**55,889**	**29,131**
Finance revenue		185	460
Finance cost	B4	(2,801)	(3,729)
PROFIT BEFORE INCOME TAX EXPENSE		**53,273**	**25,862**
Income tax expense	B5	14,338	7,786
PROFIT FROM CONTINUING OPERATIONS		**38,935**	**18,076**
Discontinued operations:			
Net profit for the year from discontinued operations		-	299
PROFIT FOR THE YEAR		**38,935**	**18,375**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss - continuing operations:			
(Loss) gain on cash flow hedges		(8)	2,490
Income tax relating to cash flow hedges		(27)	(668)
		(35)	**1,822**
Items that will not be reclassified to profit or loss - discontinued operations:			
Gain on shares in listed company		-	1,206
		-	**1,206**
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(35)**	**3,028**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**38,900**	**21,403**
EARNINGS PER SHARE:	D5		
Basic and diluted earnings per share (cents) - continuing operations		27.9	14.1
Basic and diluted earnings per share (cents) - discontinued operations		0.0	0.2
Basic and diluted earnings per share (cents) - total		**27.9**	**14.3**

The notes to the financial statements on pages 44 to 74 form part of and should be read in conjunction with this statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	NOTE	Share Capital $'000	Properties Revaluation Reserve $'000	Hedging Reserve $'000	Equity-settled Employee Benefits Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2014		**61,957**	**27,408**	**423**	**-**	**85,525**	**175,313**
Profit for the year - continuing operations		-	-	-	-	18,076	18,076
Profit for the year - discontinued operations		-	-	-	-	299	299
Other comprehensive income for the year - continuing operations		-	-	1,822	-	-	1,822
Other comprehensive income for the year - discontinued operations		-	-	-	-	1,206	1,206
Total comprehensive income for the year		-	-	1,822	-	19,581	21,403
Transfers		-	(1,800)	-	-	1,800	-
Recognition of share-based payments		-	-	-	65	-	65
Dividends paid	D3	-	-	-	-	(17,703)	(17,703)
Issue of share capital	D1	30,000	-	-	-	-	30,000
Share issue costs	D1	(1,042)	-	-	-	-	(1,042)
Demerger of George H Investments Limited Group		-	(319)	-	-	(61,387)	(61,706)
Balance at 31 December 2014		**90,915**	**25,289**	**2,245**	**65**	**27,816**	**146,330**
Profit for the year		-	-	-	-	38,935	38,935
Other comprehensive loss for the year		-	-	(35)	-	-	(35)
Total comprehensive income for the year		-	-	(35)	-	38,935	38,900
Recognition of share-based payments	D1, D2	(160)	-	-	168	-	8
Dividends paid	D3	-	-	-	-	(9,685)	(9,685)
Dividends declared	D3	-	-	-	-	(14,527)	(14,527)
Balance at 31 December 2015		**90,755**	**25,289**	**2,210**	**233**	**42,539**	**161,026**

The notes to the financial statements on pages 44 to 74 form part of and should be read in conjunction with this statement.

	NOTE	2015 $'000	2014 $'000
EQUITY			
Share capital	D1	90,755	90,915
Properties revaluation reserve	D2	25,289	25,289
Hedging reserve	D2	2,210	2,245
Equity-settled employee benefits reserve	D2	233	65
Retained earnings	D2	42,539	27,816
TOTAL EQUITY		**161,026**	**146,330**
Represented By:			
CURRENT ASSETS			
Cash and bank balances		13,832	988
Trade and other receivables	E1	14,681	13,298
Other financial assets	E2	5,476	4,778
Inventories	C5	14,314	14,021
Prepayments		2,966	2,678
TOTAL CURRENT ASSETS		**51,269**	**35,763**
NON-CURRENT ASSETS			
Biological assets	C1	37,034	31,368
Property, plant and equipment	C2	150,750	145,982
Investments accounted for using the equity method	C3	4,962	3,565
Goodwill	C4	5,319	5,319
Other financial assets	E2	6,192	3,016
Computer software		929	1,397
TOTAL NON-CURRENT ASSETS		**205,186**	**190,647**
TOTAL ASSETS		**256,455**	**226,410**
CURRENT LIABILITIES			
Trade and other payables	E3	22,276	17,940
Dividend declared	D3	14,527	-
Borrowings	E4	-	11,000
Current tax liabilities	B5	4,427	1,921
Other financial liabilities	E5	2,229	873
TOTAL CURRENT LIABILITIES		**43,459**	**31,734**
NON-CURRENT LIABILITIES			
Borrowings	E4	30,000	30,000
Deferred tax liabilities	B5	19,116	17,873
Other financial liabilities	E5	2,854	473
TOTAL NON-CURRENT LIABILITIES		**51,970**	**48,346**
TOTAL LIABILITIES		**95,429**	**80,080**
NET ASSETS		**161,026**	**146,330**

The notes to the financial statements on pages 44 to 74 form part of and should be read in conjunction with this statement.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	2015 $'000	2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	300,026	262,844
Dividends received	895	3,010
Interest received	185	460
	301,106	**266,314**
Cash was disbursed to:		
Payments to suppliers and employees	238,705	228,152
Interest paid	2,801	3,729
Income tax paid	10,616	7,033
	252,122	**238,914**
NET CASH GENERATED BY OPERATING ACTIVITIES	**48,984**	**27,400**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Employee loans repaid	-	1,206
Other advances repaid	1,624	64
Sale of property, plant and equipment and computer software	920	298
	2,544	**1,568**
Cash was applied to:		
Advances to joint venture	-	1,530
Cash transferred with demerged companies	-	313
Investment in biological assets	2,635	3,105
Purchase of associate company	-	56
Purchase of computer software	620	675
Purchase of shares in unlisted companies	9	44
Purchase of property, plant and equipment	14,575	10,413
	17,839	**16,136**
NET CASH USED IN INVESTING ACTIVITIES	**(15,295)**	**(14,568)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from borrowings	-	11,000
Shares issued	-	30,000
	-	**41,000**
Cash was applied to:		
Borrowings repaid	11,000	30,000
Distribution on demerger of George H Investments Limited Group	-	8,560
Dividends paid	9,685	17,703
Shares purchased	160	-
Share issue costs	-	1,042
	20,845	**57,305**
NET CASH USED IN FINANCING ACTIVITIES	**(20,845)**	**(16,305)**
NET INCREASE (DECREASE) IN NET CASH	12,844	(3,473)
Cash and cash equivalents at the beginning of the year	988	4,461
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**13,832**	**988**
Represented by:		
Cash and bank balances	13,832	988
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**13,832**	**988**

The notes to the financial statements on pages 44 to 74 form part of and should be read in conjunction with this statement.

	2015 $'000	2014 $'000
NET CASH GENERATED BY OPERATING ACTIVITIES		
Reconciliation of profit for the year to net cash generated by operating activities:		
Profit for the year	38,935	18,375
Non-cash items:		
Amortisation	1,088	941
Change in fair value of biological assets	(3,031)	(1,409)
Hedge ineffectiveness on cash flow hedges	(1,759)	(510)
Deferred tax	1,216	516
Depreciation	9,050	8,708
Share of equity accounted results	(2,268)	(1,501)
Share-based payments	168	65
Current assets and liabilities included in demerger transaction	-	855
Items classified as investing and financing activities:		
Dividends received from equity accounted companies	870	2,989
Purchase of shares in associate company	-	56
Gain on disposal of property, plant and equipment	(163)	(148)
Changes in net assets and liabilities:		
Trade and other receivables	(1,383)	(388)
Inventories	(293)	(2,925)
Prepayments	(288)	(462)
Trade and other payables	4,336	2,416
Current tax	2,506	(178)
NET CASH GENERATED BY OPERATING ACTIVITIES	**48,984**	**27,400**

Statement of Cash Flows

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

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

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

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

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

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 24 February 2016.

Jon Mayson, Chairman

Andy Borland, Managing Director

ABOUT THIS REPORT

IN THIS SECTION

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

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

Scales Corporation Limited (the Company) is a for profit entity domiciled and registered under the Companies Act 1993 in New Zealand. It is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The Group consists of Scales Corporation Limited, its subsidiaries, 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 listed on the New Zealand Stock Exchange on 25 July 2014.

The financial statements have been prepared:

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

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

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

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

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

Key Judgements and Estimates

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

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

- Biological Assets in note C1.
- Land and Buildings in note C2.

Basis of Consolidation

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

The financial statements of members of the Group, other than Fern Ridge Produce Limited, are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Other Accounting Policies

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

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

The Group has reviewed all Standards, Interpretations and Amendments to existing Standards in issue not yet effective and, with the exception of NZ IFRS 9 (2014) *Financial Instruments* which is effective for the financial year ending 31 December 2018, NZ IFRS 15 *Revenue from Contracts with Customers* which is effective for the Financial year ending 31 December 2018, NZ IFRS 16 *Leases* which is effective for the financial year ending 31 December 2019 and amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture* which are effective for the financial year ending 31 December 2016, does not expect these Standards to have a material effect on the financial statements of the Group.

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

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

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

The amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture* require biological assets that meet the definition of a bearer plant (apple trees) to be accounted for as property, plant and equipment in accordance with NZ IAS 16. The Group has not yet determined the potential impact of this Standard.

A. SEGMENT INFORMATION

IN THIS SECTION

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

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

SEGMENT REPORTING

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

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

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

All non-current assets are located in New Zealand.

The Group comprises the following operating segments:

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

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

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

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

	Food Ingredients $'000	Horticulture $'000	Storage & Logistics $'000	Other $'000	Eliminations $'000	Total $'000
2015						
Total segment revenue	48,570	178,126	95,622	3,354	(24,262)	301,410
Inter-segment revenue	-	-	(21,648)	(2,614)	24,262	-
Revenue from external customers	48,570	178,126	73,974	740	-	301,410
Gain (loss) on sale of non-current assets	-	204	(38)	(3)	-	163
Share of profits of entities accounted for using the equity method	1,454	814	-	-	-	2,268
EBITDA	7,663	44,655	16,294	(2,585)	-	66,027
Amortisation expense	(6)	(321)	(723)	(38)	-	(1,088)
Depreciation expense	(494)	(4,277)	(4,270)	(9)	-	(9,050)
Finance revenue	1	41	15	128	-	185
Finance costs	-	-	-	(2,801)	-	(2,801)
Segment profit (loss) before income tax	7,164	40,098	11,316	(5,305)	-	53,273

SEGMENT REPORTING (continued)

	Food Ingredients $'000	Horticulture $'000	Storage & Logistics $'000	Other $'000	Eliminations $'000	Total $'000
Segment assets	24,964	124,696	96,013	10,782	-	256,455
Segment liabilities	6,332	33,852	19,189	36,056	-	95,429
Segment carrying value of investments accounted for using the equity method	3,019	1,943	-	-	-	4,962
Segment acquisition of property, plant and equipment and computer software	220	5,013	9,924	38	-	15,195
Fair value adjustments included in EBITDA	109	4,663	18	(366)	-	4,424
2014						
Total segment revenue	37,217	158,808	90,609	3,212	(26,584)	263,262
Inter-segment revenue	-	-	(24,035)	(2,549)	26,584	-
Revenue from external customers	37,217	158,808	66,574	663	-	263,262
Gain (loss) on sale of non-current assets	-	190	(42)	-	-	148
Share of profits of entities accounted for using the equity method	1,042	459	-	-	-	1,501
EBITDA	5,609	25,945	12,323	(5,196)	-	38,681
Amortisation expense	(29)	(299)	(570)	(43)	-	(941)
Depreciation expense	(530)	(4,061)	(3,999)	(19)	-	(8,609)
Finance revenue	-	366	26	808	(740)	460
Finance costs	-	(685)	(56)	(3,728)	740	(3,729)
Segment profit (loss) before income tax	5,050	21,266	7,724	(8,178)	-	25,862
Segment assets	22,069	112,541	89,659	2,141	-	226,410
Segment liabilities	4,472	21,181	18,686	35,741	-	80,080
Segment carrying value of investments accounted for using the equity method	1,565	2,000	-	-	-	3,565
Segment acquisition of property, plant and equipment and computer software	227	3,261	9,088	38	-	12,614
Fair value adjustments included in EBITDA	(75)	2,029	-	(100)	-	1,854

	2015 $'000	2014 $'000
The total revenues from external customers in New Zealand and other countries are:		
New Zealand	95,965	85,827
Asia	67,907	38,379
Europe	64,704	76,833
North America	45,562	40,490
Other	27,272	21,733
	301,410	**263,262**

B. FINANCIAL PERFORMANCE

IN THIS SECTION

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

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

B1. REVENUE

	2015	2014
	$'000	$'000
Revenue from the sale of goods	218,566	179,188
Revenue from the rendering of services	81,827	74,024
Fees and commission	454	433
Net foreign exchange (loss) gain	(6,929)	4,427
Net hail insurance proceeds	4,192	2,178
Rental revenue	3,300	3,012
	301,410	263,262

Sale of Goods

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

Rendering of Services

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

Fees and Commission

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

Net Hail Insurance Proceeds

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

Rental Income

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

B2. COST OF SALES, ADMINISTRATION AND OPERATING EXPENSES

Auditor's remuneration:		
Audit of the financial statements:		
Audit of the annual financial statements	106	108
Review of interim financial statements	35	48
Other services:		
Audit of solvency certificate for Selacs Insurance Limited	9	5
Independent auditor's report for IPO	-	88
Investigating accountant's report for IPO	-	478
Review of financial statement presentation	5	-
Tax compliance services	33	32
Tax services re demerger	-	82
Tax services re employee share scheme	69	-

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

	2015 $'000	2014 $'000
Bad debts	225	701
Change in inventories	(293)	(2,925)
Direct expenses	26,747	29,701
Directors' fees	360	287
Donations	19	29
Electricity	7,315	7,070
Employee benefits expense:		
Post employment benefits - defined contribution plans	1,167	1,020
Salaries, wages and related benefits	59,917	49,980
Other employee benefits	366	65
Grower payments	30,827	31,094
Insurance	3,315	3,296
Management fees	114	129
Materials and consumables	34,169	28,356
Ocean and air freight	45,610	48,791
Operating lease expenses	11,894	10,459
Packaging	13,245	12,213
Repairs and maintenance	7,374	7,064
	242,628	**228,171**
Disclosed as:		
Cost of sales	194,142	181,989
Administration and operating expenses	48,486	43,160
Offer costs	-	3,022
	242,628	**228,171**

Employee Benefits

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

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

Leased Assets

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

B3. OTHER INCOME AND LOSSES

Change in fair value of biological assets (note C1)	3,031	1,409
Dividends	24	22
Gain on disposal of property, plant and equipment	163	148
Hedge ineffectiveness on cash flow hedges	1,759	510
	4,977	**2,089**

B4. FINANCE COST

	2015 $'000	2014 $'000
Interest on loans	2,588	3,313
Other interest	36	185
Bank facility fees	177	231
	2,801	**3,729**

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

B5. TAXATION

Income Tax Recognised in Profit or Loss

Income tax expense comprises:		
Current tax expense	13,252	6,951
Adjustments recognised in the current year in relation to the current tax of prior years	(130)	373
Deferred tax expense relating to the origination and reversal of temporary differences	1,216	462
Total income tax expense recognised in profit or loss	**14,338**	**7,786**

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

Profit from continuing operations	**53,273**	**25,862**
Income tax expense calculated at 28%	14,916	7,241
Non-assessable income	(747)	(421)
Non-deductible expenses	158	950
Under provision of income tax in previous year - current tax	(130)	373
Over provision of income tax in previous year - deferred tax	141	(357)
	14,338	**7,786**

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

Current Tax Liability		
Balance at beginning of the year	1,921	2,100
Current taxation expense - continuing operations	13,122	7,324
Taxation paid	(10,616)	(7,503)
Balance at end of the year	**4,427**	**1,921**

B5. TAXATION (continued)

	Opening balance	Charged to profit or loss	Charged to other comprehensive income	Demerger of George H Investments Limited Group	Closing balance
	$'000	$'000	$'000	$'000	$'000
Deferred Tax Liability					
Taxable and deductible temporary differences arise from the following:					
31 December 2015					
Deferred tax liabilities (assets):					
Trade and other receivables	2	(83)	-	-	(81)
Biological assets	5,840	1,427	-	-	7,267
Computer software	11	-	-	-	11
Property, plant and equipment	11,773	(186)	-	-	11,587
Trade and other payables	(586)	58	-	-	(528)
Other financial assets and liabilities	833	-	27	-	860
Net deferred tax liability	**17,873**	**1,216**	**27**	**-**	**19,116**
31 December 2014					
Deferred tax liabilities (assets):					
Trade and other receivables	-	2	-	-	2
Biological assets	5,122	718	-	-	5,840
Investment properties	295	-	-	(295)	-
Computer software	11	-	-	-	11
Property, plant and equipment	12,375	(182)	-	(420)	11,773
Trade and other payables	(510)	(76)	-	-	(586)
Other financial assets and liabilities	165	-	668	-	833
Net deferred tax liability (asset)	**17,458**	**462**	**668**	**(715)**	**17,873**

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

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

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

Income Tax

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

B6. FOREIGN CURRENCY TRANSACTIONS

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

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

C. KEY ASSETS

IN THIS SECTION

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

- biological assets;
- property, plant and equipment;
- investments accounted for using the equity method;
- goodwill; and
- inventories

C1. BIOLOGICAL ASSETS

	2015 $'000	2014 $'000
Non-current		
Balance at beginning of the year	31,368	26,853
Development expenditure	16,106	15,421
Decrease due to harvest	(13,471)	(12,315)
Gain arising from changes in fair value less estimated sale costs (note B3)	3,031	1,409
Balance at end of the year	**37,034**	**31,368**

Biological assets consist of the apple trees on the orchards of $21,541,000 (2014: $17,897,000) and the value of the unharvested fruit on the trees of $15,493,000 (2014: $13,471,000) at the reporting date.

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.

The biological assets, on owned and leased orchards, consist of apple trees with the following planting profile:

	Total Hectares Planted	
	2015	2014
Premium varieties:		
NZ Queen	194	194
Pink Lady	107	104
Red sports (Fuji and Royal Gala)	204	199
Other premium	43	43
Traditional varieties:		
Braeburn	172	183
Royal Gala	173	174
Other traditional	149	155
	1,042	1,052

The exported volume from Mr Apple's planted apple orchard was 3,147,000 TCE's (2014: 2,752,000 TCE's).

Valuation:

The valuation of the biological assets include the fair value of the unharvested crop. This assessment of the value of the unharvested crop 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.

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 2015. The market valuations completed by Boyd Gross were based on a DCF analysis of forecast income streams and costs. This was benchmarked against a comparison of sales of other orchards adjusted to reflect the location, plantings, age and varieties of trees and productive capabilities of the orchards.

C1. BIOLOGICAL ASSETS (continued)

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

	2015	2014
Production levels (gross tray carton equivalent (TCE)) per hectare	2,500 - 5,265	2,500 - 5,265
Orchard gate returns per TCE	$21.00 - $42.20	$22.00 - $36.00
Orchard costs per TCE	$15.50 - $21.00	$16.00 - $21.00
Discount rate	19.8% - 23.8%	17.5% - 22.8%

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

The Group's biological assets are classified as level 3 in the fair value hierarchy.

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 derivative instruments and building close working relationships with key customers.

C2. PROPERTY, PLANT AND EQUIPMENT

	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
Gross carrying amount					
Balance 1 January 2014	110,397	86,440	2,090	15,172	214,099
Additions	895	3,412	4,678	1,429	10,414
Disposals	(31)	(1,326)	-	(637)	(1,994)
Demerger of George H Investments Limited Group	(7,428)	(167)	(162)	(52)	(7,809)
Balance 31 December 2014	103,833	88,359	6,606	15,912	214,710
Additions	992	14,478	(2,414)	1,519	14,575
Disposals	(293)	(2,082)	(40)	(542)	(2,957)
Balance 31 December 2015	**104,532**	**100,755**	**4,152**	**16,889**	**226,328**
Accumulated depreciation, and impairment					
Balance 1 January 2014	-	51,697	-	10,298	61,995
Depreciation expense	2,265	5,003	-	1,440	8,708
Disposals	-	(1,290)	-	(562)	(1,852)
Demerger of George H Investments Limited Group	(79)	(10)	-	(34)	(123)
Balance 31 December 2014	2,186	55,400	-	11,142	68,728
Depreciation expense	2,204	5,293	-	1,553	9,050
Disposals	(19)	(1,787)	-	(394)	(2,200)
Balance 31 December 2015	**4,371**	**58,906**	**-**	**12,301**	**75,578**
Net book value					
As at 31 December 2014	101,647	32,959	6,606	4,770	145,982
As at 31 December 2015	**100,161**	**41,849**	**4,152**	**4,588**	**150,750**

$8,609,000 of the 2014 depreciation expense related to continuing operations and $99,000 related to discontinued operations.

C2. PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting Policy

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.

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

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

Land and Buildings carried at Fair Value

Land and buildings shown at valuation were valued at fair value as at 31 December 2013 by independent registered valuers Logan Stone Limited ($34,704,000), Macpherson Valuation Limited ($3,750,000) and Rawcliffe & Co Limited ($65,121,000). The valuations, which conform to the New Zealand Property Institute Practice Standard 3 - Valuations for Financial Reporting Purposes, were arrived at by reference to market evidence of transaction prices for similar properties.

The fair value is calculated on the basis of market value. The assessment also includes a calculation on a rental investment capitalisation basis which is benchmarked against a depreciated replacement cost calculation.

The significant unobservable inputs, based on regional averages, for the land and buildings (mainly coldstores and packhouses) are potential market comparative rentals $15 - $115 per square metre and the market yields 9.25% - 15%. The higher the rental rates the higher the fair value. The higher the market yields the lower the fair value. Significant changes in either of these inputs would result in significant changes to the fair value measurement.

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

The carrying amount of land and buildings had it been recognised under the cost model is $70,274,000 (31 December 2014 $71,761,000).

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2015			2014		
	Associate Company	**Joint Venture**	**Total**	**Associate Company**	**Joint Venture**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000
Share of profit before taxation	1,133	2,035	3,168	638	1,436	2,074
Share of income tax	(319)	(581)	(900)	(179)	(394)	(573)
Share of Net Profit for the Year and Total Comprehensive Income	814	1,454	2,268	459	1,042	1,501
Carrying value at beginning of the year	2,000	1,564	3,564	2,000	3,052	5,052
Dividend paid	(870)	-	(870)	(459)	(2,529)	(2,988)
INVESTMENT IN EQUITY ACCOUNTED ENTITIES	**1,944**	**3,018**	**4,962**	**2,000**	**1,565**	**3,565**

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

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

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

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

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

C4. GOODWILL

	2015 $'000	2014 $'000
Gross Carrying Amount		
Balance at beginning and end of the year	5,319	5,319

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

For the purpose of impairment testing, goodwill has been allocated 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 2015, the Directors have determined, based on discounted cash flow and value in use calculations, that there is no impairment of goodwill associated with Liqueo Bulk Storage Limited and Mr Apple New Zealand Limited. The Directors consider that any reasonably possible changes in the key assumptions would not cause the carrying amount of any of the cash-generating units to exceed their recoverable amount.

C5 . INVENTORIES

Finished goods	11,512	11,152
Other	2,802	2,869
	14,314	**14,021**

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

C6. IMPAIRMENT OF ASSETS

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

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

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

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

D. CAPITAL FUNDING

IN THIS SECTION

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

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

Capital Management

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

D1. SHARE CAPITAL

	2015		2014	
	Number	Value $'000	Number	Value $'000
Ordinary Capital				
Balance at beginning of the year	139,779,006	90,915	39,864,002	61,957
Shares purchased for senior executive share scheme	-	(160)	-	-
Two for one share split on 30 April 2014	-	-	39,864,002	-
Shares repurchased and cancelled on 30 April 2014	-	-	(39,864,002)	-
Three for one share split on 18 June 2014	-	-	79,728,004	-
Shares issued on 24 July 2014 pursuant to the Public Offer	-	-	20,187,000	30,000
Share issue costs	-	-	-	(1,042)
Balance at end of the year	**139,779,006**	**90,755**	**139,779,006**	**90,915**

The 20,187,000 shares issued on 24 July 2014 includes 1,437,000 issued in accordance with the senior executive share scheme.

	2015		2014	
Available Subscribed Capital				
Balance at beginning of the year		36,036		66,002
Shares purchased for senior executive share scheme		(160)		-
Demerger of George H Investments Limited Group on 30 April 2014		-		(62,265)
Shares issued during the year		-		32,299
Balance at end of the year		**35,876**		**36,036**

The consideration for the 30 April 2014 repurchase and cancellation of ordinary shares was the distribution of the equivalent number of ordinary shares in George H Investments Limited.

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.

D2. RESERVES

Properties Revaluation Reserve

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.

Hedging Reserve

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

Equity-settled Employee Benefits Reserve

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

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

During the year 96,193 shares were purchased (2014: 1,437,000 shares were issued) in accordance with the Scheme and remain outstanding at reporting date. The shares will vest on 24 July 2017. The price that the executives pay for each share is the issue price at grant date, reduced by any dividends that are applied to the loans.

The shares issued vest over three years. Each instrument was estimated to have a fair value of 32.7 cents at the grant date. The estimated value of the shares was determined using the Black-Scholes pricing calculator and is being amortised over the restrictive period. This cost is expensed with the corresponding credit included in the equity-settled employee benefits reserve. The inputs into the option pricing calculator are the acquisition date share price $1.60, expected share price volatility 22%, option life 3 years and risk-free interest rate 3.89%.

Retained Earnings

Retained earnings represents the profits retained in the business.

D3. DIVIDENDS

	2015 $'000	2014 $'000
2014 final dividend - 7.00 (2014: 11.33) cents per share	9,685	13,567
2015 interim dividend - 6.50 (2014: 3.00) cents per share	8,993	4,136
2015 special dividend - 4.00 cents per share	5,534	-
	24,212	**17,703**

The 2015 interim and special dividends were declared on 10 December 2015 and paid on 20 January 2016.

D4. IMPUTATION CREDIT ACCOUNT

Balance at end of the year	**10,898**	**6,980**

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

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

D5. EARNINGS PER SHARE

	2015 $'000	2014 $'000
Profit from continuing operations for the year - used in the calculation of total earnings per share	38,935	18,076
Profit from discontinued operations for the year - used in the calculation of total earnings per share	-	299
Basic earnings per share		
Weighted average number of ordinary shares	139,779,006	127,811,184
Basic earnings per share from continuing operations (cents)	27.9	14.1
Basic earnings per share from discontinued operations (cents)	0.0	0.2
Diluted earnings per share		
Weighted average number of ordinary shares	139,779,006	127,811,184
Diluted earnings per share from continuing operations (cents)	27.9	14.1
Diluted earnings per share from discontinued operations (cents)	0.0	0.2

The Company completed a 3 for 1 share split on 18 June 2014 which resulted in 119,592,006 shares being on issue at 30 June 2014. On 24 July 2014 the Company issued 20,187,000 shares in the initial public offer. The weighted average number of ordinary shares used in the calculation of earnings per share for 2014 has been adjusted to reflect the share split.

E. FINANCIAL ASSETS AND LIABILITIES

IN THIS SECTION

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

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

ACCOUNTING POLICIES

Financial Assets

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

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

Financial assets at fair value through profit or loss

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

Financial assets measured at amortised cost

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

Impairment of financial assets

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

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

Financial Liabilities Measured at Amortised Cost

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

Derivative Financial Instruments

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

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

Hedge Accounting

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

Cash Flow Hedges

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

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

E1. TRADE AND OTHER RECEIVABLES

	2015 $'000	2014 $'000
Trade receivables	11,822	11,106
Other receivables	603	629
Owing by entities accounted for using the equity method	531	70
Goods and services tax	1,725	1,493
	14,681	**13,298**

Credit Risk Management

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

There is a significant concentration of credit risk with five customers who represent 22.01% (2014 five customers who represent 25.38%) of trade and other receivables.

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

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

One month	2,191	2,305
Two months	654	606
More than two months	636	693
	3,481	**3,604**

E2. OTHER FINANCIAL ASSETS

Current:

At fair value:		
Foreign currency derivative instruments	4,540	2,254
At amortised cost:		
Advances to entities accounted for using the equity method	530	1,530
Advances to other entities	406	994
	5,476	**4,778**

Non-current:

At fair value:		
Foreign currency derivative instruments	5,705	2,334
Interest rate swap contracts and forward rate agreements	-	167
Shares in unlisted companies	144	172
At amortised cost:		
Employee loans	343	343
	6,192	**3,016**

E3. TRADE AND OTHER PAYABLES

	2015 $'000	2014 $'000
Trade payables	12,981	11,682
Accruals	5,665	3,643
Employee entitlements	3,630	2,615
	22,276	**17,940**

E4. BORROWINGS

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

The group signed Multi-Option Facility Agreements with Rabobank and Westpac New Zealand Limited on 22 March 2013. The total facility is $102,000,000. At 31 December 2015 the undrawn amount under these facilities, after allowing $2,000,000 to cover the bank overdraft facilities, was $70,000,000 (2014: $59,000,000). The floating interest rate is 4.07% (2014: 4.95% to 5.09%) and the term borrowing facility roll-over date is 30 June 2017. The bank facilities are secured by a registered first and exclusive general security over the company and all subsidiaries (other than Selacs Insurance Limited, Scales Employees Limited and Meateor Foods Australia Pty Limited) and mortgages over all group land and buildings.

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

E5. OTHER FINANCIAL LIABILITIES

Current financial liabilities at fair value:

	2015	2014
Foreign currency derivative instruments	2,145	737
Interest rate swap contracts and forward rate agreements	84	136
	2,229	**873**

Non-current financial liabilities at fair value:

	2015	2014
Foreign currency derivative instruments	1,799	187
Interest rate swap contracts and forward rate agreements	1,055	286
	2,854	**473**

E6. INTEREST RATE RISK

Interest Rate Risk Management

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

At balance date the Group had bank loans with an interest rate of 4.07% (2014: 4.95% to 5.09%). The interest rate review periods are 30 to 90 days.

Interest Rate Swap Contracts and Forward Rate Agreements

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

E6. INTEREST RATE RISK (continued)

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

Maturity Date	Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2015	2014	2015	2014	2015	2014
	%	%	$'000	$'000	$'000	$'000
Interest rate swap contracts:						
Within one year	-	5.00	-	10,000	-	(125)
Two to five years	4.14	4.14	30,000	30,000	(856)	(27)
After five years	4.62	4.62	10,000	10,000	(159)	(76)
Forward rate agreements:						
Within one year	3.65	3.87	25,000	30,000	(84)	(12)
Two to five years	3.55	4.01	25,000	10,000	(40)	(15)
					(1,139)	**(255)**

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

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

At 31 December 2015 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 $417,000 (2014: $286,000).

E7. FOREIGN CURRENCY RISK

Foreign Currency Risk Management

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

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

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

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

	2015		2014	
	Contract Value	Fair Value	Contract Value	Fair Value
	$'000	$'000	$'000	$'000
Sale commitments forward foreign exchange contracts	152,613	1,955	105,911	2,627
Sale commitments foreign exchange options	146,158	4,345	61,383	1,037

These foreign currency instruments are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movements in foreign currency exchange rates on anticipated future transactions. It is anticipated that the sales will take place during the 2016 to 2019 financial years at which stage the amount deferred in equity will be released into profit or loss.

It is estimated that a general increase of five cents in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit after income tax by $10,159,000 (2014: $5,947,000). A decrease in exchange rates would have the opposite impact on profit.

E8. CATEGORIES OF FINANCIAL INSTRUMENTS

	2015	2014
	$'000	$'000
Financial Assets:		
Fair value through profit or loss	144	172
Derivative instruments in designated hedge accounting relationships	10,245	4,755
Amortised cost	28,068	17,153
	38,457	**22,080**
Financial Liabilities:		
Amortised cost	66,803	58,940
Derivative instruments in designated hedge accounting relationships	5,083	1,346
	71,886	**60,286**

E9. MATURITY PROFILE OF FINANCIAL LIABILITIES

Liquidity Risk Management

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

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

	Within Three Months	Four Months to One Year	One to Five Years	Total
	$'000	$'000	$'000	$'000
2015				
Trade and other payables	22,276	-	-	22,276
Dividend declared	14,527	-	-	14,527
Borrowings	305	916	30,611	31,832
Interest rate swaps and forward rate agreements	92	276	1,035	1,403
	37,200	**1,192**	**31,646**	**70,038**
2014				
Trade and other payables	17,940	-	-	17,940
Borrowings	518	12,417	32,291	45,226
Interest rate swaps and forward rate agreements	33	85	353	471
	18,491	**12,502**	**32,644**	**63,637**

F. GROUP STRUCTURE

IN THIS SECTION

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

- subsidiaries; and
- investments in associate company and joint venture.

F1. SUBSIDIARY COMPANIES

Subsidiary Companies:	Principal Activity	Country of Incorporation	Holding 2015	Holding 2014	Balance Date
Meateor Foods Limited	Trading company	New Zealand	100%	100%	31 December
Meateor Foods Australia Pty Limited	Trading company	Australia	100%	100%	31 December
Mr Apple New Zealand Limited	Trading company	New Zealand	100%	100%	31 December
New Zealand Apple limited	Trading company	New Zealand	100%	100%	31 December
Liqueo Bulk Storage Limited	Trading company	New Zealand	100%	100%	31 December
Polarcold Stores Limited	Coldstore operator	New Zealand	100%	100%	31 December
Scales Logistics Limited	Freight consolidator	New Zealand	100%	100%	31 December
Whakatu Coldstores Limited	Coldstore operator	New Zealand	100%	100%	31 December
Geo. H. Scales Limited	Non trading company	New Zealand	100%	100%	31 December
Scales Employees Limited	Custodial company	New Zealand	100%	100%	31 December
Scales Holdings Limited	Holding company	New Zealand	100%	100%	31 December
Selacs Insurance Limited	Insurance company	New Zealand	100%	100%	31 December

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

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

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

F2. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Joint Venture:					
Profruit (2006) Limited	Juice Production & Sales	New Zealand	50%	50%	31 December

The Scales Corporation Limited Group share of the guarantee of Profruit (2006) Limited bank loan facilities is $348,000 (2014: $456,000).

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

The Fern Ridge Produce Limited balance date of 31 October is in accordance with that of the other shareholders. Due to the seasonal nature of the business there is no significant effect on the share of the results of the Group.

F3. DISCONTINUED OPERATIONS

On 30 April 2014 the demerger of the Investments operating division was effected, with Scales shareholders at that time receiving shares in George H Investments Limited, the holding company for the Investments group. The other companies in the Investments group were Scales Property Development Limited, Silverstream Industrial Park Limited, Tiger Ventures NZ Limited and Whakatu Property Management Limited.

Further information relating to the demerger was disclosed in note 8 of the Scales Corporation Limited 2014 financial statements.

G. OTHER

IN THIS SECTION

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

G1. CAPITAL COMMITMENTS

	2015 $'000	2014 $'000
Commitments entered into in respect of biological assets as at balance date were	1,420	2,127
Commitments entered into in respect of property, plant and equipment as at balance date were	233	-

G2. OPERATING LEASE COMMITMENTS

The Group as Lessee

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

Non-cancellable operating lease commitments:		
Not later than one year	12,811	8,611
Later than one year and not later than five years	40,020	26,085
Later than five years	57,456	28,375

The Group as Lessor

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

Non-cancellable operating lease receivables:		
Not later than one year	1,101	1,121
Later than one year and not later than five years	3,640	3,243
Later than five years	3,223	2,135

G3. RELATED PARTY DISCLOSURES

Transactions with Related Parties

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

Key Management Personnel Remuneration

The compensation of the directors and executives, being the key management personnel of the Group, is as follows:		
Short-term employee benefits	2,557	2,618
Post-employment benefits	99	114
	2,656	2,732

G3. RELATED PARTY DISCLOSURES (continued)

	2015 $'000	2014 $'000
Transactions with Equity Accounted Entities		
Revenue from sale of goods	4,683	1,750
Revenue from services	2,277	754
Interest income	-	30
Dividends received	871	2,989
Materials and consumables purchases	153	-
Trade receivables at balance date	531	71
Advance at balance date	530	1,530

The advance is unsecured and repayable on demand.

G4. EVENTS OCCURRING AFTER BALANCE DATE

During January 2016 the Group acquired a further 22.88% shareholding in associate company Fern Ridge Produce Limited, increasing our total shareholding to 72.88%. Consideration for the purchase was $1,720,000.

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

H. COMPARISON WITH PROSPECTIVE FINANCIAL INFORMATION

IN THIS SECTION

This section includes the comparison of the actual financial information for the year ended 31 December 2015 with the prospective financial information included in the prospectus dated 20 June 2014.

COMPARISON WITH PROSPECTIVE FINANCIAL INFORMATION

Prospective Statement of Comprehensive Income for the Year Ended 31 December 2015

	2015 $'000 **Actual**	2015 $'000 **Prospectus**
Revenue	301,410	260,393
Cost of sales	(194,142)	(179,597)
Gross profit	**107,268**	**80,796**
Share of profits of associate company and joint venture accounted for using the equity method	2,268	1,412
Other income	4,977	-
Administration and operating expenses	(48,486)	(40,960)
EBITDA	**66,027**	**41,248**
Depreciation and amortisation	(10,138)	(9,630)
EBIT	**55,889**	**31,618**
Finance revenue	185	-
Finance cost	(2,801)	(3,287)
PROFIT BEFORE INCOME TAX EXPENSE	**53,273**	**28,331**
Income tax expense	(14,338)	(7,537)
PROFIT FOR THE YEAR	**38,935**	**20,794**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss - continuing operations:		
Loss on cash flow hedges	(8)	-
Income tax relating to cash flow hedges	(27)	-
OTHER COMPREHENSIVE LOSS FOR THE YEAR	**(35)**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**38,900**	**20,794**

When necessary, current year actuals have been regrouped to conform with the classification of the prospective financial information.

Explanation of variances:

Total comprehensive income at $38,900 is $18,106 higher than forecast. This is due to better than forecast performances in the Horticulture and Food Ingredients segments as a result of: higher volumes; lower foreign exchange and shipping rates; and a gain on the change in the fair value of biological assets. The Prospectus did not include any forecasts for changes in the fair value of biological assets and gains or losses on cash flow hedges.

COMPARISON WITH PROSPECTIVE FINANCIAL INFORMATION (continued)

Prospective Statement of Changes in Equity for the Year Ended 31 December 2015

	2015 $'000 **Actual**	2015 $'000 **Prospectus**
Equity at 1 January 2015	**146,330**	**145,656**
Profit for the year	38,935	20,794
Other comprehensive loss for the year	(35)	-
Total comprehensive income for the year	38,900	20,794
Recognition of share-based payments	8	-
Dividends paid or declared	(24,212)	(12,970)
Equity at 31 December 2015	**161,026**	**153,480**

Explanation of variances:

Total equity at 31 December 2015 is $7,546 higher than the forecast. This is the result of the increase in comprehensive income being partially offset by the payment or declaration of higher than forecast dividends for 2014/2015.

Prospective Statement of Financial Position as at 31 December 2015

EQUITY		
Share capital	90,755	90,832
Properties revaluation reserve	25,289	27,089
Hedging reserve	2,210	423
Equity-settled employee benefits reserve	233	-
Retained earnings	42,539	35,136
TOTAL EQUITY	**161,026**	**153,480**
Represented By:		
CURRENT ASSETS		
Cash and bank balances	13,832	2,102
Trade and other receivables	14,681	13,334
Other financial assets	5,476	1,749
Inventories	14,314	11,041
Other current assets	2,966	2,132
TOTAL CURRENT ASSETS	**51,269**	**30,358**
NON- CURRENT ASSETS		
Investments accounted for using the equity method	4,962	5,052
Other financial assets	6,192	3,051
Property, plant and equipment	150,750	145,562
Biological assets	37,034	29,800
Goodwill	5,319	5,319
Other intangible assets	929	917
TOTAL NON-CURRENT ASSETS	**205,186**	**189,701**
TOTAL ASSETS	**256,455**	**220,059**

COMPARISON WITH PROSPECTIVE FINANCIAL INFORMATION (continued)

Prospective Statement of Financial Position as at 31 December 2015 (continued)

	2015 $'000 **Actual**	2015 $'000 **Prospectus**
CURRENT LIABILITIES		
Trade and other payables	22,276	15,115
Dividends declared	14,527	-
Current tax liabilities	4,427	2,512
Other financial liabilities	2,229	599
TOTAL CURRENT LIABILITIES	**43,459**	**18,226**
NON- CURRENT LIABILITIES		
Borrowings	30,000	30,000
Deferred tax liabilities	19,116	16,688
Other financial liabilities	2,854	1,665
TOTAL NON-CURRENT LIABILITIES	**51,970**	**48,353**
TOTAL LIABILITIES	**95,429**	**66,579**
NET ASSETS	**161,026**	**153,480**

Explanation of variances:

The more significant changes in the components of the statement of financial position were the increases in current assets and liabilities.

The increase in current assets was mainly due to a better than forecast cash position. This is a reflection of the better than forecast profit for the year.

The increase in current liabilities was due to an increase in trade payables, being a result of increased business activity, the inclusion of the dividends declared in December 2015 and the fair value of foreign exchange contracts in the actual results. Fair value gains and losses were not forecast in the prospectus.

COMPARISON WITH PROSPECTIVE FINANCIAL INFORMATION (continued)

Prospective Statement of Cash Flows for the Year Ended 31 December 2015

	2015 $'000 **Actual**	2014 $'000 **Prospectus**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	300,026	260,056
Dividends received	895	1,412
Interest received	185	-
Cash was disbursed to:		
Payments to suppliers and employees	(238,705)	(220,609)
Interest paid	(2,801)	(3,287)
Income tax paid	(10,616)	(7,292)
NET CASH GENERATED BY OPERATING ACTIVITIES	**48,984**	**30,280**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Other advances repaid	1,624	155
Sale of property, plant and equipment and other intangible assets	920	-
Cash was applied to:		
Investment in biological assets	(2,635)	(1,000)
Purchase of other intangible assets	(620)	(55)
Purchase of shares in unlisted companies	(9)	-
Purchase of property plant and equipment	(14,575)	(9,592)
NET CASH USED IN INVESTING ACTIVITIES	**(15,295)**	**(10,492)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was applied to:		
Borrowings repaid	(11,000)	(2,500)
Dividends paid	(9,685)	(12,970)
Shares purchased	(160)	-
NET CASH USED IN FINANCING ACTIVITIES	**(20,845)**	**(15,470)**
NET INCREASE IN NET CASH	**12,844**	**4,318**
Cash and cash equivalents at the beginning of the year	988	(2,216)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**13,832**	**2,102**
Represented by:		
Cash and bank balances	13,832	2,102
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**13,832**	**2,102**

Explanation of variances:

The improvement in the cash and cash equivalents at 31 December 2015 resulted from the increase in cash generated from operations, as a result of the increased performance for the year, offset by higher net capital expenditure and the repayment of the short term borrowings.

COMPARISON WITH PROSPECTIVE FINANCIAL INFORMATION (continued)

Prospective Segmental Reporting for the Year Ended 31 December 2015

	Food Ingredients $'000			Horticulture $'000		
	Actual	Prospectus	Variance	Actual	Prospectus	Variance
Revenue	48,570	34,794	13,776	178,126	158,881	19,245
Cost of sales	(39,984)	(29,558)	(10,426)	(113,507)	(113,666)	159
Gross profit	8,586	5,236	3,350	64,619	45,215	19,404
Share of profits of associate company and joint venture accounted for using the equity method	1,454	1,070	384	814	342	472
Other income	109	-	109	4,868	-	4,868
Administration and operating expenses	(2,486)	(2,186)	(300)	(25,646)	(21,508)	(4,138)
EBITDA	**7,663**	**4,120**	**3,543**	**44,655**	**24,049**	**20,606**
Depreciation and amortisation	(500)	(599)	99	(4,598)	(3,951)	(647)
EBIT	**7,163**	**3,521**	**3,642**	**40,057**	**20,098**	**19,959**
Finance revenue	1	-	1	41	-	41
Finance cost	-	-	-	-	(861)	861
PROFIT BEFORE INCOME TAX EXPENSE	**7,164**	**3,521**	**3,643**	**40,098**	**19,237**	**20,861**
Income tax expense	(1,598)	(686)	(912)	(10,922)	(5,290)	(5,632)
NET PROFIT FOR THE YEAR	**5,566**	**2,835**	**2,731**	**29,176**	**13,947**	**15,229**
Current assets	18,184	11,072	7,112	10,885	6,097	4,788
Non-current assets	6,780	6,822	(42)	113,811	98,875	14,936
Current liabilities	(6,343)	(3,932)	(2,411)	(21,168)	(8,313)	(12,855)
Non-current liabilities	11	49	(38)	(12,684)	(8,744)	(3,940)
Net Assets	**18,632**	**14,011**	**4,621**	**90,844**	**87,915**	**2,929**

Explanation of variances:

The increase of $2,731 in the Food Ingredients net profit resulted from the higher than forecast sales in Meateor Foods Limited and a higher than forecast contribution from the Profruit (2006) Limited joint venture.

The increase of $15,229 in the Horticulture net profit was due to: higher export volumes; lower foreign exchange and shipping rates than forecast; and a gain on the change in the fair value of biological assets. The Prospectus did not include any forecast for changes in the fair value of biological assets.

COMPARISON WITH PROSPECTIVE FINANCIAL INFORMATION (continued)

Prospective Segmental Reporting for the Year Ended 31 December 2015 (continued)

	Storage & Logistics $'000			Other $'000		
	Actual	Prospectus	Variance	Actual	Prospectus	Variance
Revenue	95,623	93,374	2,249	3,353	3,125	228
Cost of sales	(61,542)	(62,890)	1,348	-	-	-
Gross profit	34,081	30,484	3,597	3,353	3,125	228
Other income (loss)	2	-	2	(3)	-	(3)
Administration and operating expenses	(17,789)	(15,674)	(2,115)	(5,935)	(4,856)	(1,079)
EBITDA	**16,294**	**14,810**	**1,484**	**(2,585)**	**(1,731)**	**(854)**
Depreciation and amortisation	(4,993)	(5,008)	15	(47)	(72)	25
EBIT	**11,301**	**9,802**	**1,499**	**(2,632)**	**(1,803)**	**(829)**
Finance revenue	15	-	15	128	-	128
Finance cost	-	(56)	56	(2,801)	(2,370)	(431)
PROFIT BEFORE INCOME TAX EXPENSE	**11,316**	**9,746**	**1,570**	**(5,305)**	**(4,173)**	**(1,132)**
Income tax expense	(3,169)	(2,729)	(440)	1,351	1,168	183
NET PROFIT FOR THE YEAR	**8,147**	**7,017**	**1,130**	**(3,954)**	**(3,005)**	**(949)**
Current assets	11,848	8,300	3,548	10,352	5,236	5,116
Non-current assets	84,165	81,502	2,663	430	2,502	(2,072)
Current liabilities	(10,609)	(5,345)	(5,264)	(5,339)	(984)	(4,355)
Non-current liabilities	(8,580)	(9,261)	681	(30,717)	(30,397)	(320)
Net Assets	**76,824**	**75,196**	**1,628**	**(25,274)**	**(23,643)**	**(1,631)**

Explanation of variances:

The increase of $1,130 in the Storage & Logistics segment was due to higher than forecast utilisation rates in our coldstores and better than forecast gross margins in our logistics operations.

The increased loss of $949 in the Other segment resulted from higher than forecast overheads.

DIRECTOR DISCLOSURES AND EMPLOYEE REMUNERATION

Directors

The following persons were Directors of Scales and its subsidiaries during the year ended 31 December 2015:

Scales Corporation Limited

Andy Borland	Non-Independent Director
Tim Goodacre	Independent Director
Nick Harris	Independent Director
Mark Hutton	Non-Independent Director
Alan Isaac	Independent Director
Jon Mayson	Independent Chairman

Geo.H.Scales Limited

Andy Borland

Steve Kennelly

Kent Ritchie

Liqueo Bulk Storage Limited

Andy Borland

Kevin Cahill

Meateor Foods Limited

Andy Borland

Stephen Foote

Nick Harris

Meateor Foods Australia Pty Limited

Andy Borland

Tim Goodacre

Mr Apple New Zealand Limited

Andy Borland

Tim Goodacre

Mark Hutton

New Zealand Apple Limited

Andy Borland

Tim Goodacre

Polarcold Stores Limited

Andy Borland

Nick Harris

Mark Hutton

Jon Mayson

Scales Employees Limited

Andy Borland

Mark Hutton

Scales Holdings Limited

Andy Borland

Steve Kennelly

Kent Ritchie

Scales Logistics Limited

Andy Borland

Steve Kennelly

Kent Ritchie

Selacs Insurance Limited

Andy Borland

Alan Isaac

Steve Kennelly

Whakatu Coldstores Limited

Andy Borland

Kevin Cahill (resigned 29 May 2015)

Stephen Foote

Interests Register

The following entries were made in the interests register of Scales and its subsidiaries during the period 1 January 2015 to 31 December 2015:

Indemnification and Insurance of Directors

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

Share Dealings by Directors

Dealings by Directors in relevant interests in Scales' ordinary shares during the year ended 31 December 2015 as entered in the Interests Register of Scales are as follows:

Name of Director	No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
Kevin Cahill	50,000	Registered holder and beneficial owner	Acquisition	$1.73 per share	28 May 2015
Andy Borland	375,000	Registered holder, together with Gina Dellabarca and Mark Bolton, as trustees of the Borland Dellabarca Family Trust, of which Andy Borland is a discretionary beneficiary.	Acquisition	$1.99 per share	21 & 22 September 2015

General Notice of Disclosure of Interest in the Interests Register

Details of Directors' general disclosures entered in the relevant interests register for Scales or its subsidiaries during the period 1 January 2015 to 31 December 2015 are as follows:

Scales Corporation Limited	
Tim Goodacre	
HSR Group Pty Limited	Ceased to be a Director and Chairman
Alan Isaac	
Fliway Group Limited	Appointed as Director
Oceania Healthcare (NZ) Limited	Appointed as Director
Wellington Free Ambulance	Appointed as Board member
Jon Mayson	
Trevelyan Pack & Cool Limited	Ceased to be a Director and Chairman

Relevant Interests

The table below records the Scales ordinary shares in which each Director had a relevant interest as at 31 December 2015.

Director	Number of Ordinary Shares – Beneficial	Number of Ordinary Shares – Non-Beneficial
Andy Borland	220,800	1,950,000
Tim Goodacre	15,625	Nil
Nick Harris	100,000	Nil
Mark Hutton	Nil	25,223,978
Alan Isaac	25,000	3,000
Jon Mayson	30,000	Nil

Use of Company Information by Directors

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

Remuneration

Directors' Remuneration

The Directors' remuneration is paid in the form of fees. Additional fees are payable in respect of work carried out on Board committees. The total pool of fees payable to Directors is subject to shareholder approval. The current pool, set on 18 June 2014, is $400,000.

The total remuneration and value of other benefits received by each non-executive Director who held office as a Director of Scales and its subsidiaries during the period 1 January 2015 to 31 December 2015 was as follows:

Tim Goodacre	$64,500 [1]
Nick Harris	$60,000
Mark Hutton	Nil [2]
Alan Isaac	$80,000
Jon Mayson	$95,000

In addition, Directors are entitled to be reimbursed for costs associated with carrying out their duties.

[1] Tim Goodacre's remuneration includes $4,500 in consultancy fees for work carried out for Mr Apple New Zealand Limited.

[2] Direct Capital IV Management Limited (DCIVM), of which Mark Hutton is a Director, received $65,000 on account of Director's services performed by Mark Hutton.

Remuneration and other benefits from Scales and its subsidiaries to Executive Directors

Scales Corporation Limited has made an interest free loan to Andy Borland under the Scales Senior Executive Long Term Incentive (LTI) Scheme of $353,280 to purchase 220,800 Scales' shares. As at 31 December 2015 the balance owing under the loan was $332,733.

The total remuneration and value of other benefits (including the benefit under the LTI scheme above) paid to Andy Borland in the period ended 31 December 2015 was $611,067.

Executive Directors and employees acting as Directors do not receive Directors' fees.

Executive Remuneration

The number of employees of the Group (including former employees), not being a Director mentioned above, who received remuneration and other benefits in excess of $100,000 in the period 1 January 2015 to 31 December 2015 is set out in the remuneration bands detailed below:

Amount of Remuneration	Employees
$100,001 - $110,000	7
$110,001 - $120,000	8
$120,001 - $130,000	8
$130,001 - $140,000	6
$140,001 - $150,000	5
$150,001 - $160,000	1
$160,001 - $170,000	3
$180,001 - $190,000	1
$190,001 - $200,000	1
$200,001 - $210,000	3
$230,001 - $240,000	1
$240,001 - $250,000	1
$260,001 - $270,000	1
$270,001 - $280,000	1
$280,001 - $290,000	2
$400,001 - $410,000	1

Auditor's Fees

Deloitte has continued to act as the auditor of Scales and its subsidiaries. The amount payable by Scales and its subsidiaries to Deloitte as audit fees (including for the review of interim financial statements) during the year ended 31 December 2015 was $141,000. The amount of fees payable to Deloitte for non-audit work during the year ended 31 December 2015 was $116,083.

SHAREHOLDER INFORMATION

Spread of Shares

Set out below are details of the spread of shareholders of Scales as at 31 January 2016:

	Number of Shareholders	Number of Shares	% of Shares
Under 1,999	481	487,420	0.35
2,000 to 4,999	710	2,213,833	1.58
5,000 to 9,999	665	4,321,370	3.09
10,000 to 49,999	723	13,476,557	9.64
50,000 to 99,999	77	5,059,122	3.62
Over 100,000	74	114,220,704	81.72

20 Largest Shareholders

Set out below are details of the 20 largest shareholders of Scales as at 31 January 2016:

Shareholder	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	40,268,347	28.80
Direct Capital Investments Limited	25,043,562	17.91
Custodial Services Limited	8,241,658	5.89
FNZ Custodians Limited	5,234,938	3.74
Custodial Services Limited	2,951,921	2.11
Christopher Jon Jamieson & Morris Wayne Williams & Ian Gordon Bruce Davidson & Richard Henry Hill	2,507,500	1.79
Investment Custodial Services Limited	2,256,715	1.61
John Grant & Camille Elizabeth Sinclair	2,241,000	1.60
Custodial Services Limited	2,152,323	1.53
John Grant Sinclair	2,095,096	1.49
Custodial Services Limited	2,079,128	1.48
Andrew James Borland & Gina Dellabarca & Mark Andrew Bolton	1,950,000	1.12
Investment Custodial Services Limited	1,869,538	1.33
Custodial Services Limited	1,817,285	1.30
Scales Employees Limited	1,533,193	1.09
Custodial Services Limited	1,089,877	0.77
David Russell Dicks & Dorothea Clare Millen & Andrew Francis van Workum	810,000	0.57
Woolf Fisher Trust Incorporated	680,000	0.48
FNZ Custodians Limited	520,616	0.37
Paul Hewitson & Christopher John Stark	330,000	0.23
Total	**105,672,697**	**75.21**

Substantial Product Holders

Set out below are details of the substantial product holders of Scales as advised by notice to Scales at 31 December 2015. The number of shares shown below is as advised in the most recent substantial product holder notices given to Scales and may not be their holding as at 31 December 2015.

Name	Number of Shares	Class of Shares
Direct Capital Investments Limited	25,223,978	Ordinary
Westpac Banking Corporation	7,673,460	Ordinary
Salt Funds Management Limited	11,379,509	Ordinary
First NZ Capital Group Limited	7,054,333	Ordinary

The total number of Scales Corporation Limited ordinary shares on issue as at 31 December 2015 was 139,779,006.

OTHER INFORMATION

NZX Waivers

Scales did not rely upon any waivers granted by NZX Limited during the year ended 31 December 2015.

Exercise of NZX Disciplinary Powers

NZX Limited did not exercise any of its powers under Listing Rule 5.4.2 in relation to Scales during the year ended 31 December 2015.

Donations

Donations of $19,460 were made by Scales during the year ended 31 December 2015.

Corporate Governance

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

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

The full content of Scales' corporate governance policies, practices and procedures can be found in the company's Corporate Governance Code, which is available in the "Corporate Governance" section of the company's website, www.scalescorporation.co.nz. The code was reviewed and updated in October 2015 and is reviewed annually.

Responsibilities of the Board

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

The main functions of the Board include to:

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

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

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

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

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

Board of Directors

The Board is structured to add value. A profile of each of the Directors as at 16 March 2016 is on pages 34 - 35 of this report. The profiles include information on the year of appointment, skills, experience and background of each Director.

Jon Mayson is the Independent Chairman of Scales, and Tim Goodacre, Nick Harris and Alan Isaac are Independent Directors. Mark Hutton is associated with Direct Capital Investments Limited, holder of an 18.046% shareholding in the company,[6] and therefore is not an Independent Director.

Andy Borland is the Managing Director of Scales.

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

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

Board Committees

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

Audit and Risk Management Committee

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

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

[6] *As at the date of this Annual Report, Direct Capital Investments Limited has agreed to sell some of its shareholding (being 15.381% of the shares in Scales) to China Resources Ng Fung Limited.*

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

Nominations and Remuneration Committee

The primary functions of the Nominations and Remuneration Committee are:

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

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

Attendance at Meetings

The table below sets out Director attendance at Board and Committee meetings during the year ended 31 December 2015. In total there were nine Board meetings, five Audit and Risk Management Committee meetings and two Nominations and Remuneration Committee meetings.

	Board	Audit and Risk Management Committee	Nominations and Remuneration Committee
Andy Borland	9	-	-
Tim Goodacre	9	-	2
Nick Harris	8	5	-
Mark Hutton	7	3	1
Alan Isaac	8	5	-
Jon Mayson	8	-	2

Code of Ethics

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

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

The code is subject to annual review by the Board.

Auditor Independence

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

The policy covers the following areas:

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

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

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

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

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

Board Performance Evaluation

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

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

Directors' Remuneration

Directors' remuneration levels are set to be fair and reasonable in a competitive market for the skills, knowledge and experience required by the company.

The Board determines the level of remuneration paid to individual Directors from the shareholder approved pool of fees. Remuneration is reviewed annually by the Board. Fees are reviewed against comparable peer groups and take into account the size and complexity of Scales' business.

Fees paid to Directors are disclosed at page 78.

Market Disclosure and Shareholder Communications

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

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

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

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

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

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

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

Trading by Company Directors and Employees

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

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

Risk Management

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

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

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

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

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

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

Independent Professional Advice

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

Interests Register

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

Particulars of entries made in the Interests Register for the year ended 31 December 2015 are included in the Statutory Information section.

Directors' and Officers' Insurance

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

Diversity

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

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

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

	As at 31 December 2015		As at 31 December 2014	
Position	**Female**	**Male**	**Female**	**Male**
Director	0 (0%)	6 (100%)	0 (0%)	6 (100%)
Senior Managers	0 (0%)	7 (100%)	0 (0%)	6 (100%)
Management Team (excluding Senior Managers)	15 (40%)	22 (60%)	12 (36%)	21 (64%)

5
6
7
8

GLOSSARY

Capital Employed	Capital employed by our operations calculated as: Non current assets plus current assets (excluding any cash or cash equivalent balances) less current liabilities (excluding any overdraft or short term debt balances)
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Fern Ridge Produce	Fern Ridge Produce Limited
FMCG	Fast moving consumer goods
FOB	Free on Board, a term which means that the price for goods includes delivery at the seller's expense on to a vessel at a named port and no further. The buyer bears all costs thereafter (including costs of sea freight)
FY	Financial year. If followed by 'F' this indicates prospective information from the Scales Registered Prospectus and Investment Statement dated June 2014
GAAP	New Zealand Generally Accepted Accounting Practice
Group	Scales and each of its subsidiaries
Ha	Hectare, a metric unit of measurement defined as 10,000 square metres
IPO	Initial Public Offering
Liqueo	Liqueo Bulk Storage Limited
Meateor	Meateor Foods Limited
Mr Apple	Mr Apple New Zealand Limited
MT	Metric tonnes
Net Profit	Net profit after tax
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PFI	The prospective financial information included in the Scales registered prospectus and investment statement dated June 2014
Polarcold	Polarcold Stores Limited
Profruit	Profruit (2006) Limited
Prospectus	Scales registered prospectus dated 20 June 2014 (as amended on 27 June 2014)
ROCE	Return on capital employed, which is calculated as EBIT divided by Capital Employed
Scales	Scales Corporation Limited
Scales Logistics	Scales Logistics Limited
Selacs Insurance	Selacs Insurance Limited
TCE	Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight
TEU	A twenty-foot equivalent unit is a unit of cargo capacity to describe container volumes
Whakatu Coldstores	Whakatu Coldstores Limited

DIRECTORY

Board of Directors

Jon Mayson (Chairman)
Andy Borland (Managing Director)
Tim Goodacre
Nick Harris
Mark Hutton
Alan Isaac

Audit and Risk Management Committee

Alan Isaac (Chairman)
Nick Harris
Mark Hutton

Nominations and Remuneration Committee

Mark Hutton (Chairman)
Tim Goodacre
Jon Mayson

Registered Office

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New Zealand

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Auditor

Deloitte

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151 Cambridge Terrace
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Bankers

ANZ Bank New Zealand Limited

37 - 41 Rotherham Street
Christchurch 8041

Rabobank New Zealand Limited

Level 23
157 Lambton Quay
Wellington 6011

Westpac New Zealand Limited

Level 2
2 Show Place
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Solicitor

Anthony Harper

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Share Registry

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Scales
growing New Zealand