

# SCALES CORPORATION LIMITED

104 YEARS AND STILL GROWING

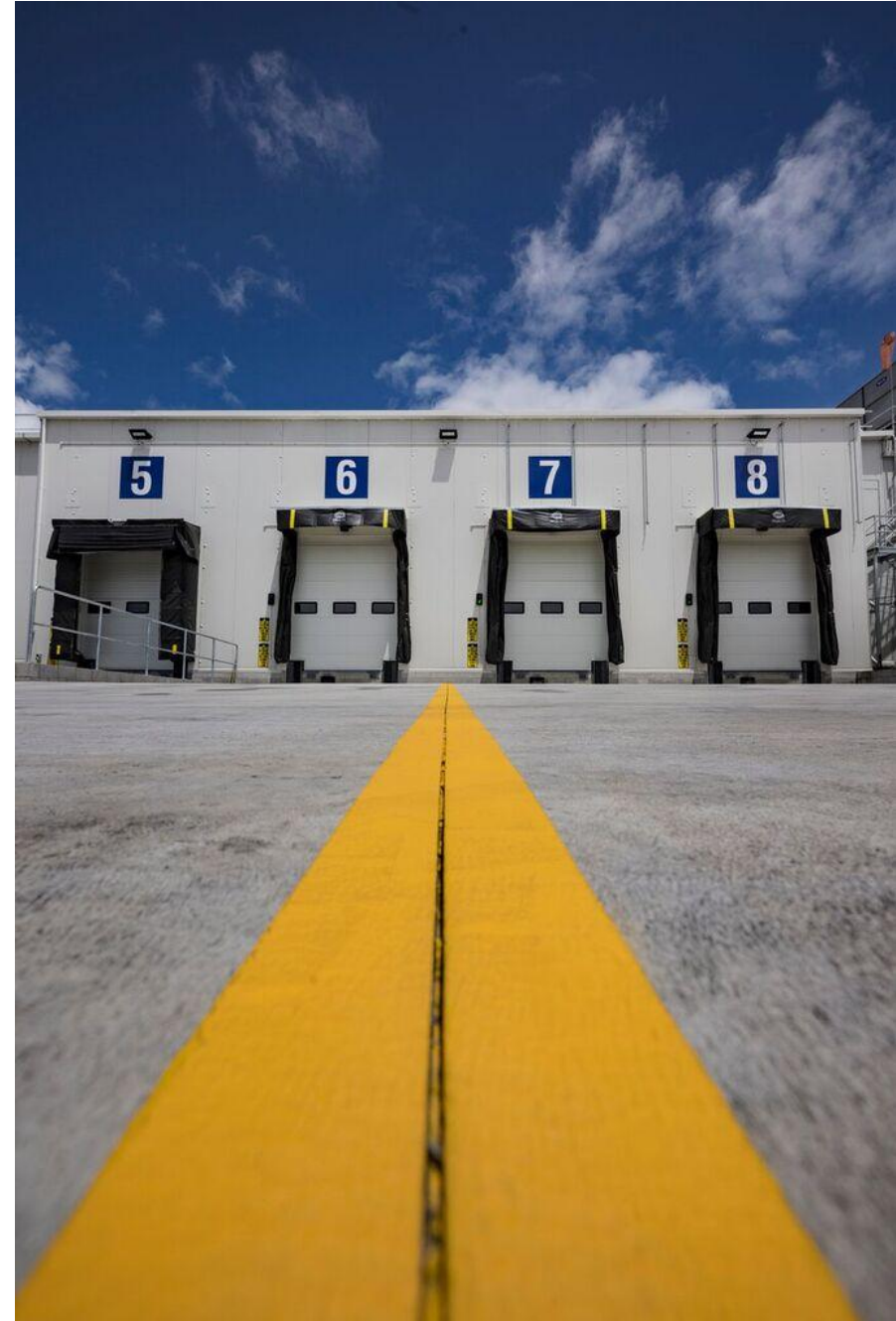
2016 Annual Shareholders' Meeting

8 June 2016



# AGENDA

- Welcome
- Chairman's review
- Managing Director's review
- Ordinary business and resolutions







# **CHAIRMAN'S REVIEW**

## **A landmark year for Scales.**

- **Welcoming China Resources**
- **Record financial performance**
- **Progressing strategy, growth in all divisions**
- **Evolving our governance**
- **INFINZ – Emerging Corporate Communicator - Finalist**

# INTRODUCTION TO CHINA RESOURCES

© CR

# Corporate Introduction

**Jun 2016**



- **CR Group Overview**
- **Huge potential for future growth**
- **No.1 Retail & Consumer Company and Trusted Partner in China**



# China Resources

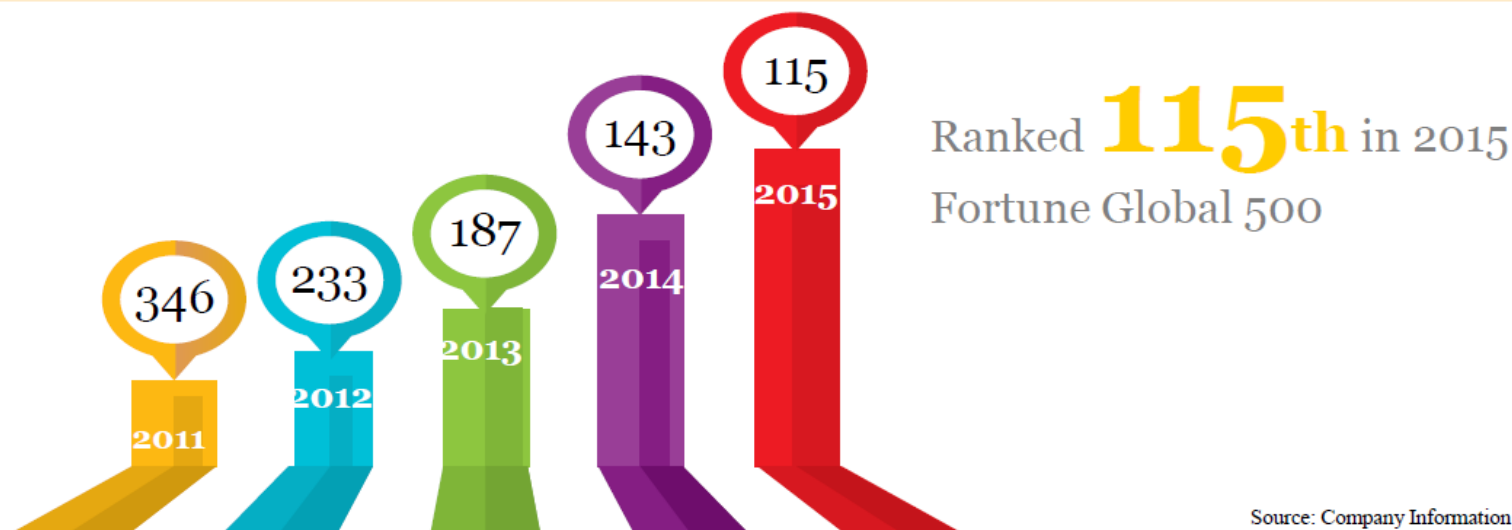
One of the Leading  
Conglomerates in Mainland  
China and Hong Kong

## CR Group Overview

- China Resources Group (“CR Group”) started in Hong Kong in 1938. It is a key state-owned enterprise (“SOE”) and a diversified conglomerate **directly under the administration of The China State-owned Assets Supervision and Administration Commission (“SASAC”)**
- CR Group has been named annually as a **grade-A SOE** since 2005. **Ranked 6th** in terms of overall performance and 9th in terms of total profit among central SOEs in 2013
- Comprises of 1,948 business entities and **500,000 employees**
- 11 Listed companies (CR Group controls)** in Hong Kong and mainland China with total **market cap of USD 70 billion**

In 2015, CR Group achieved a record high results:

- USD**74.9**bn revenue, **15%** CAGR from 2011 to 2015, **22%** CAGR from 2001 to 2015.
- USD**147.0**bn total assets, **13%** CAGR from 2011 to 2015, **24%** CAGR from 2001 to 2015.

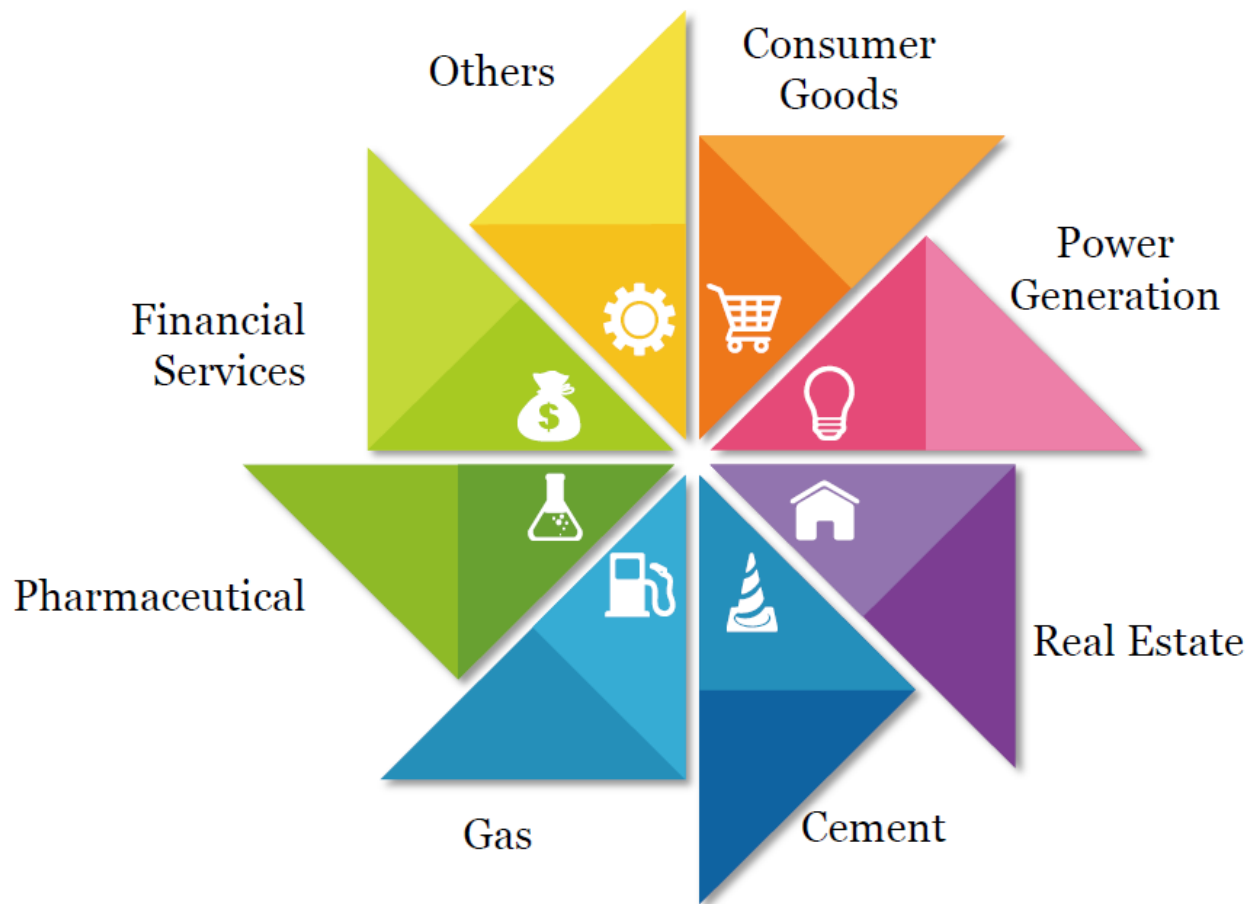


Source: Company Information



# CR Group Overview

Its core businesses include consumer goods, power generation, real estate, cement, gas and financial services.



## ➤ Consumer Goods

CR Group is a proven JV partner

### Beer



- 51/49 JV with SAB Miller for more than **22 years** and running strong. Double digit CAGR growth since 1994
- CR Snow has **No. 1 beer market share in China**

### Beverage



- 60/40 JV with Kirin for more than **5 years**.
- Successful JV with **high double digit CAGR growth**

### Food



- Prestigious integrated food supplier in China
- No.1 pork sales volume in Yangtze / Pearl River Delta (including Hong Kong)

### Coffee Chain



- **3 years** JV partnership with Chevalier.
- Pacific Coffee became one of the leading coffee chain in Hong Kong and China.

### Supermarket



- **80/20 JV with Tesco for more than 3 years.**
- **No.1** retail company in China in terms of both sales and network (>100 major cities across 31 provinces in China)

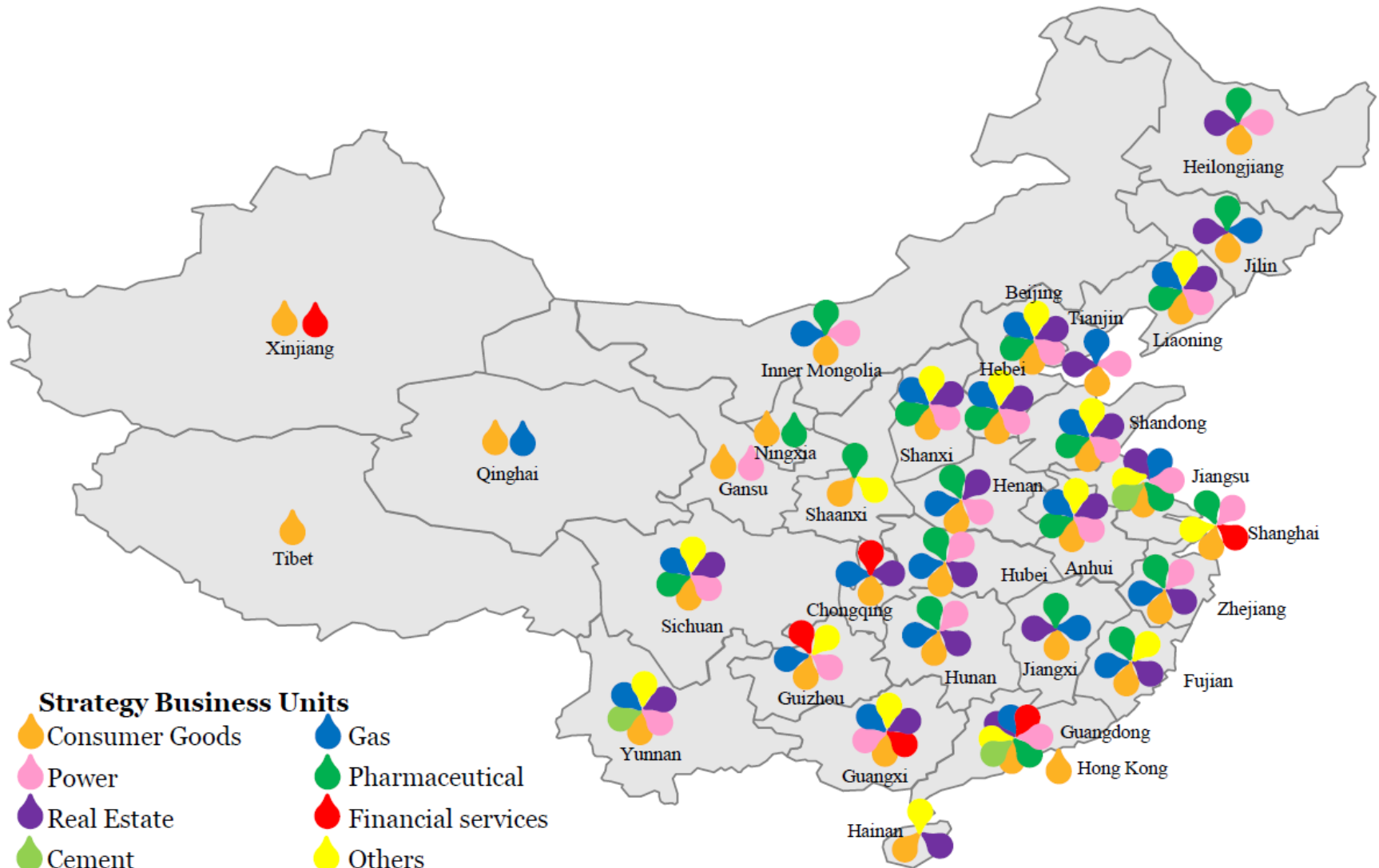
### Specialty Stores



- CR Care is a professional store chains, providing quality health products and services.
- Chinese Arts & Craft established in 1959. Selling high-end jade jewelry, precious Chinese Paintings, art & craft pieces

# CR Group Overview

**CR Group has comprehensive coverage in each of the provinces/cities in China.**



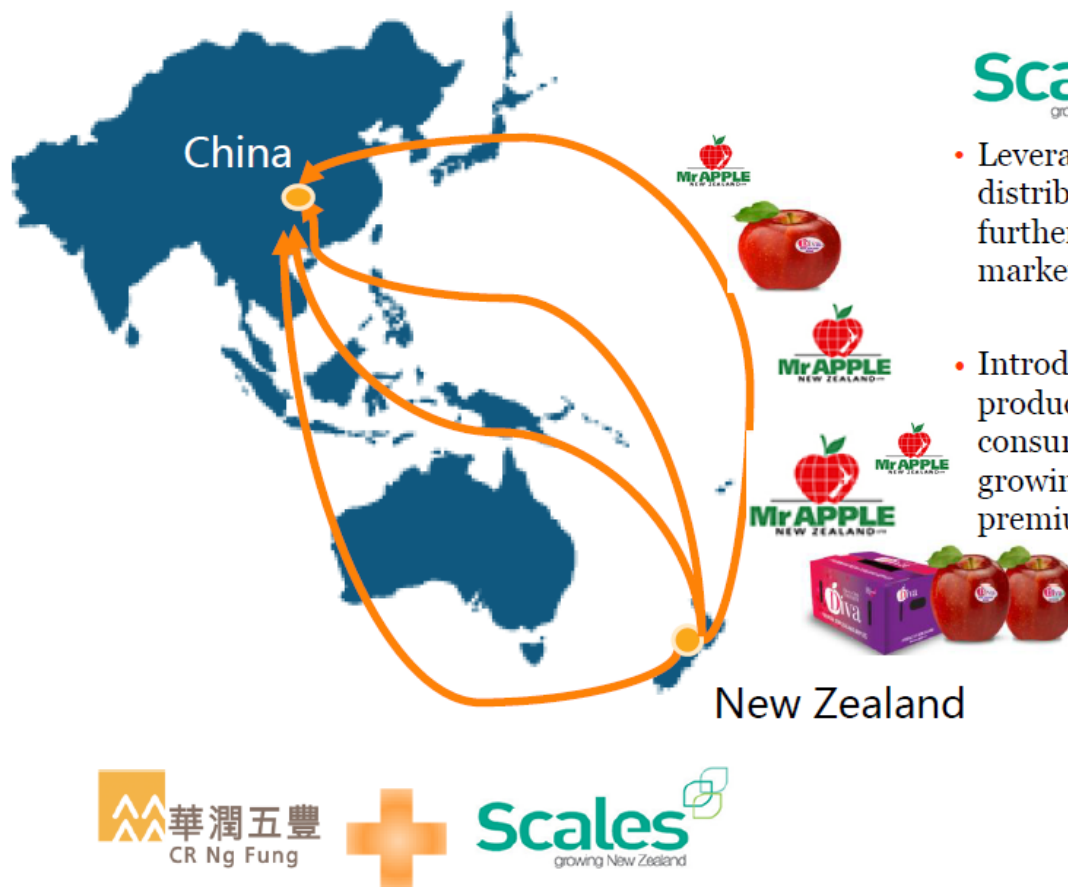
Source: Company Information



# Huge potential for future growth



- Management team with in-depth local knowledge and understanding of local consumers' needs as well as successful JV experiences to help accelerate the development of Scales' products in China.
- Solid relationship with the local business community and strong government support to navigate licenses and permits
- Providing long term investment support for future growth



- Leverage CR Group's distribution network to further expand in China market
- Introduce high-end products to Chinese consumers to satisfy the growing demand for premium products

**Value Maximization : Achieve 1+1 > 2 by Focusing on Individual Strength**

**An industry leader with unparalleled industry insight and expertise, especially in mainland China**

**Leading position from retail to beverage to food processing and distribution**



**Strong corporate governance and top-tier management team**

**Experienced in cross-border partnership and proven track record of managing JV**

# China Resources Enterprise, Ltd.

Our vision is to become a  
trustable and preferable  
retail and consumer  
goods company





# Thank you!

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# MANAGING DIRECTOR'S REVIEW

- Year in Review
- Scales' People
- Strategy Update
- Looking Ahead
- Investor Returns and Dividends





A person wearing a black cap and a bright yellow safety vest is driving a blue tractor through a narrow aisle in an orchard. The trees on either side are densely packed and covered with small, round, red fruit, likely raspberries. The background shows tall, thin trees against a clear blue sky. The overall scene is brightly lit, suggesting a sunny day.

# 1

**YEAR IN REVIEW**

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# HIGHLIGHTS

We're Growing: Operational Highlights for 2015

1

**Coldstorage Capacity Increased by 19% to 721,600m<sup>3</sup>:** Due to Auckland Coldstore + 2 coldstore leases in Christchurch.

2

**Mr Apple own-grown apple volumes up 15% to 3.15m TCEs:** Meeting our 2018 production target 3 years early.

3

**Own-grown premium apple volumes up 40% to 1.45m TCEs:** Reflects investment in orchard redevelopment and growing techniques.

4

**Securing future performance:** 20-year edible oil storage contract at Timaru commenced in August.

5

**Expanding through acquisition:** Acquired inland bulk liquid processing terminal at Napier – driving complementary growth in Liqueo.

# HIGHLIGHTS

## Financial Highlights for 2015

1

**Record Underlying EBITDA of \$61.4m**, 49% ahead of IPO Forecast and 54% ahead of 2014.

2

**Record Underlying NPAT of \$35.7m**, 71% ahead of IPO Forecast and 80% ahead of 2014 (Statutory NPAT of \$38.9m).

3

**More than \$300m Revenue for the first time in Scales history.** 68% of revenue earned from export sales.

4

**17.0 cps (fully imputed) dividends in respect of 2015.** Gross Dividend yield of 12.9% on average daily close price during 2015.

5

**All divisions ahead of IPO forecast and 2014 results.**

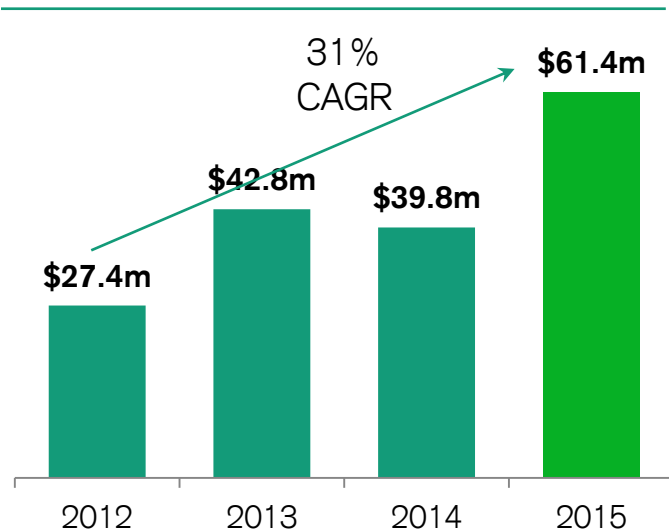


# 4-YEAR PERFORMANCE TREND\*

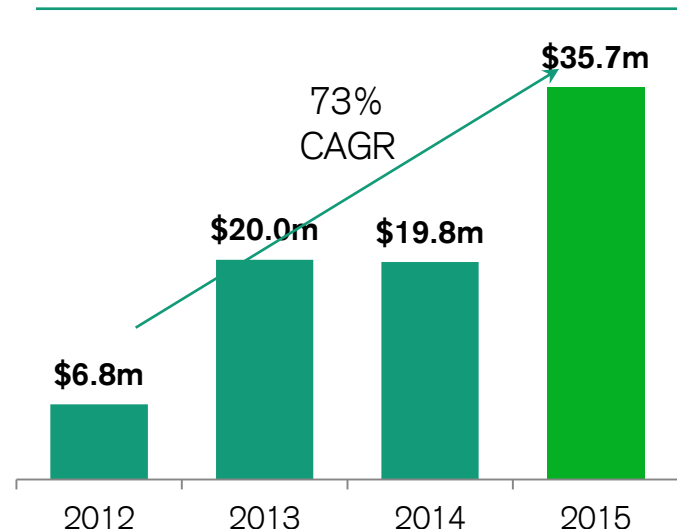
Our 2015 Result was made possible by careful investments made over the past 5 years

- We've been investing in our assets, people, and culture
- The financial impact is continuing to be demonstrated in our results
- We are continuing to invest in our growth that we will realise in years to come

**Underlying EBITDA\*\***



**Underlying NPAT\*\***



\* Scales changed its financial year end from 30 June to 31 December during 2011, as such there is no audited 12 month performance figure to 31 December 2011 to include in comparisons.

\*\* Underlying Results exclude all IFRS non-cash adjustments (most notably orchard revaluations and mark-to-market gains or losses on FX contracts not exercised during the period).

Management and the Board believe that Underlying results more accurately demonstrate the change in operational performance of the Group.

# SUMMARY FINANCIAL PERFORMANCE

Significantly ahead of IPO forecast and 2014 results

- Revenue \$301.4m, up 14% on 2014
- Underlying EBITDA \$61.4m up 54% on 2014
- Underlying NPAT \$35.6m up 80% on 2014
- Net Profit from Continuing Operations \$38.9m up 115% on 2014

## Income Statement

\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
Revenue	301.4	260.4	16%	263.3	14%
<b>Gross Margin</b>	<b>107.3</b>	<b>80.8</b>	<b>33%</b>	<b>81.3</b>	<b>32%</b>
Gross Margin %	36%	31%		31%	
<b>Underlying EBITDA</b>	<b>61.4</b>	<b>41.2</b>	<b>49%</b>	<b>39.8</b>	<b>54%</b>
<b>Underlying EBIT</b>	<b>51.3</b>	<b>31.6</b>	<b>62%</b>	<b>30.3</b>	<b>69%</b>
<b>Underlying Net Profit</b>	<b>35.7</b>	<b>20.8</b>	<b>71%</b>	<b>19.8</b>	<b>80%</b>
After tax impact of:					
Offer costs	-	-		(3.0)	
Non-cash IFRS adjustments	3.3	-		1.3	
<b>Net Profit from Continuing Operations</b>	<b>38.9</b>	<b>20.8</b>	<b>87%</b>	<b>18.1</b>	<b>115%</b>

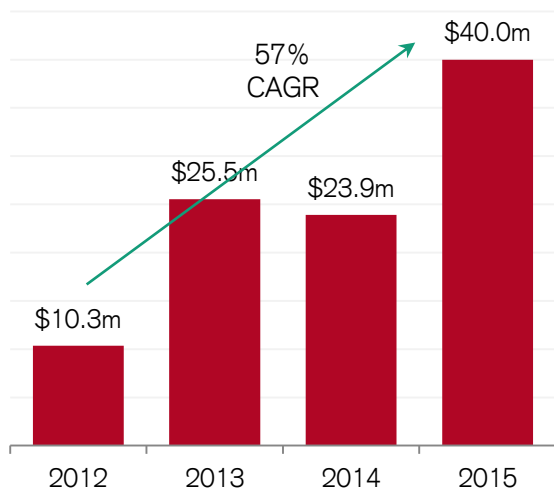
*In 2014, Scales had profit from discontinued operations of \$0.3m. Profit for the Year was \$18.4m.*

# DIVISIONAL EBITDA TREND

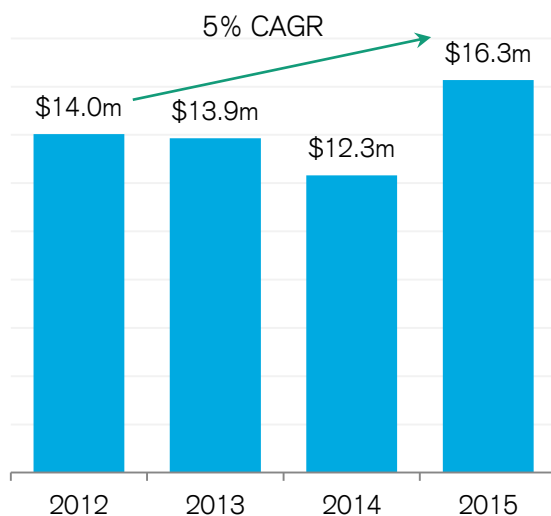
Strong growth in Horticulture and Food Ingredients supported by consistent and predictable contributions from Storage & Logistics

## Trends in Underlying Divisional EBITDA (\$m)

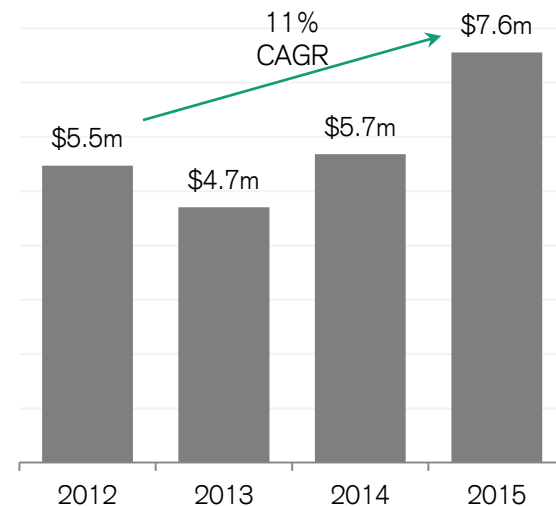
### Horticulture



### Storage & Logistics



### Food Ingredients





# STRONG BALANCE SHEET

- We have a large asset base centred around our material investment in land and buildings
- Exceeding our Return on Capital Employed targets
- We currently have considerable headroom in our banking covenants

Financial Position		
\$ millions	2015	2014
Capital Employed	213.7	204.7
<i>Return on Capital Employed</i>	<i>24%</i>	<i>15%</i>
Net Interest Bearing Debt	(16.2)	(40.0)
<i>Senior Debt Coverage</i>	<i>0.5x</i>	<i>0.8x</i>
<i>Interest Cover</i>	<i>22.6x</i>	<i>11.8x</i>
Other Liabilities	(36.5)	(18.3)
<b>Net Assets</b>	<b>161.0</b>	<b>146.3</b>



## SCALES' PEOPLE



# PEOPLE

## People first culture

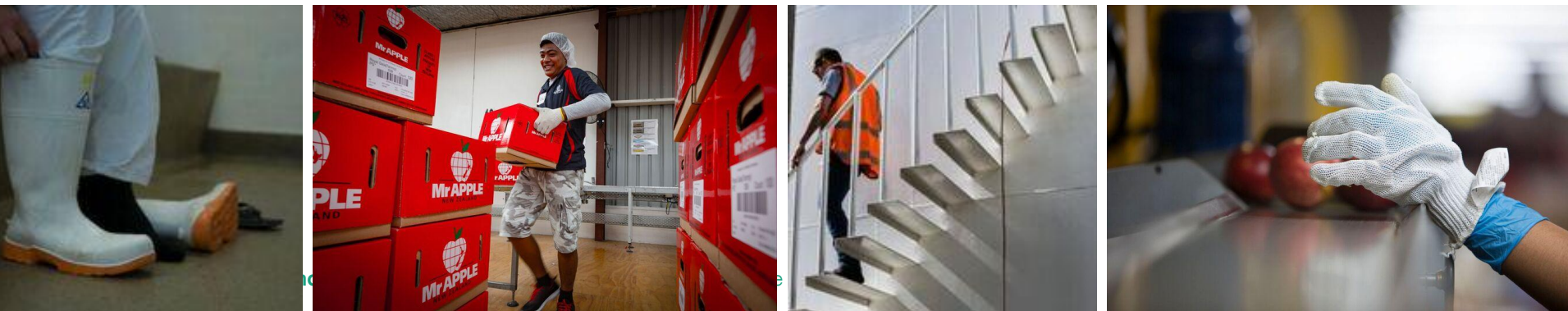
- Our people - hard-working and committed.
- We're focused on giving back – developing our people and the communities we operate in:
  - Horticulture apprenticeship scheme
  - Tertiary training
  - Work opportunities:
    - SEED Programme
    - Prisoners Release to Work Scheme
  - Literacy and numeracy courses, forklift training and licencing, drivers' licence training



# HEALTH & SAFETY

## Our #1 Priority

- Every employee should go home at the end of each day healthy and safe
- Extensive training to all managers and staff
- Pledge to continue improving





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**STRATEGIC UPDATE**

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## **Scales' Vision:**

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

## **Our long-term goal:**

To generate a long-run average 15% Return on Capital employed across our portfolio.\*

\*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).

# DEVELOPMENTS THROUGH 2015

A number of structural developments in 2015 securing future growth

- Storage & Logistics:
  - Coldstores:
    - Auckland Coldstore operational November 2015, on time and to budget
    - Two new coldstore leases in Christchurch
  - Liqueo:
    - Complementary acquisition of Mersey Street processing facility (cost efficiencies and additional revenue)
    - 20 year edible oil storage contract commenced at Timaru
  - Logistics:
    - Continued strong growth from airfreighting operation Balance Cargo which was launched in 2012 (airfreight tonnes managed up 79% from 2014)
- Horticulture:
  - Shareholding in Fern Ridge Produce increased from 50% to 72.88% (Jan-16)



# MR APPLE BRANDING





# 4

## THE YEAR AHEAD AND INVESTOR RETURNS

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# TRADING UPDATE

- Horticulture:

- Export harvest (4.1m TCEs) up 1.5% on 2015 (own apples)
- ~60% of fruit packed. Packout expected to finish up on 2015
- Slightly more than 1/3<sup>rd</sup> of crop sold to date

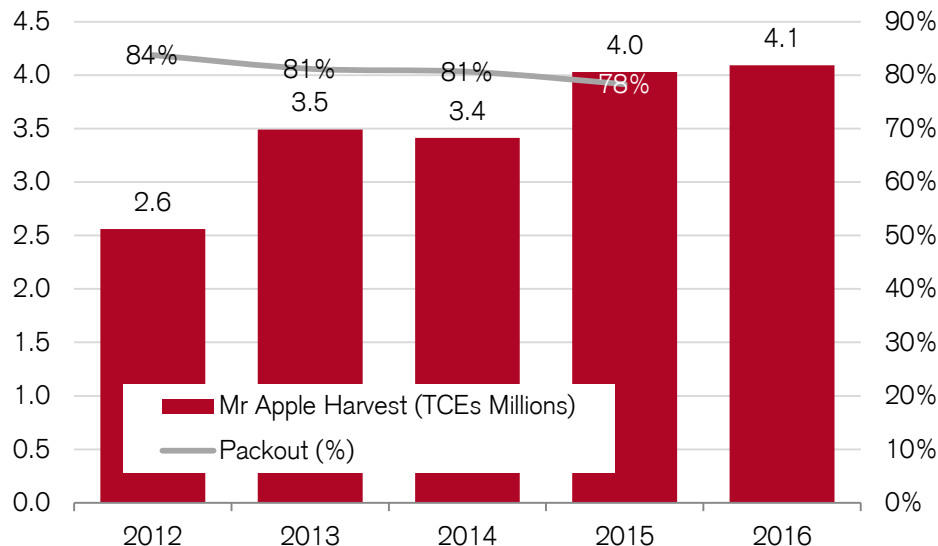
- Storage & Logistics:

- Although various industries have experienced significant changes this year (e.g. dairy and meat) divisional performance remains satisfactory
  - Highlights divisional consistency created through diversified customer base and service offering
- Auckland Coldstore now running at full utilisation, but took longer to get there than expected

- Food Ingredients:

- Meateor volumes ahead of last year with additional supply from NZ and Australia
- Juice concentrate markets remain supportive

## Mr Apple Harvest & Export Packout



# DIVIDENDS

- Total of \$0.17 per share in cash dividends declared or paid in respect of 2015
  - \$0.13 per share 'ordinary' cash dividends, up from \$0.10 per share in 2014
  - Special dividend of \$0.04 per share in cash
  - Represents a Gross Dividend Yield of 12.9% on the average daily share price in 2015, up from 9.3% during 2014
- Board is focused on maintaining constant, if not improving, cash dividends:
  - A number of opportunities to deploy capital under review
  - Dividend timing considers seasonality of cash flows

	EPS	Cash Dividends	Payout	Gross Dividends	Avg. Share Price for the Year	Gross Dividend Yield
<b>2015</b>	<b>\$0.279</b>	<b>\$0.170</b>	<b>61%</b>	<b>\$0.236</b>	<b>\$1.830</b>	<b>12.9%</b>
2014	\$0.141	\$0.100	71%	\$0.139	\$1.488	9.3%



# ORDINARY BUSINESS AND RESOLUTIONS

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# RESOLUTION 1

To record the reappointment of Deloitte as auditor of the Company and to authorise the Directors to fix the auditor's remuneration for the coming year.

# RESOLUTION 2A

To re-elect Mark Hutton as a Director.



# RESOLUTION 2B

To re-elect Alan Isaac as a Director.






# RESOLUTION 3

That the maximum total pool of Directors' remuneration be increased from \$400,000 to \$440,000 per annum taken together, until such time as this amount be altered by a further ordinary resolution of shareholders. Such sum to be divided amongst the Directors at the discretion of the Board of Directors.



An aerial photograph of a vast agricultural field, likely a nursery or a young orchard. The field is filled with rows of young green plants, possibly seedlings, planted in white plastic mulch. The rows are straight and run parallel to each other, stretching far into the distance. The plants are small and vibrant green, contrasting with the white plastic. In the background, there are more fields, some trees, and a few small structures, suggesting a rural or farm setting. The sky is overcast, and the overall lighting is soft.

# VOTING & QUESTIONS

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# DISCLAIMER

## **Please do not read this presentation in isolation**

This presentation supplements our full year results announcement dated 25 February 2016 and Annual Report released on 29 March 2016. It should be read subject to and in conjunction with the additional information in these releases, other material which we have released to the NZX, and our Investment Statement and Prospectus.

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## **Non-GAAP financial measures**

Our results are reported under NZ IFRS. This presentation includes non-GAAP financial measures which are not prepared in accordance with NZ IFRS. The non-GAAP financial measures used in this presentation include:

- EBITDA. We calculate EBITDA by adding back (or deducting) depreciation, amortisation, finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- EBIT. We calculate EBIT by adding back (or deducting) finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- Underlying EBITDA and EBIT are calculated by adding back (or deducting) any non-cash IFRS adjustments and IPO offer costs.
- Underlying Net Profit is calculated by adding back (or deducting) the after-tax effect of any non-cash IFRS adjustments, discontinued operations, and IPO offer costs

We believe that these non-GAAP financial measures provide useful information to readers to assist in the understanding of our financial performance, financial position or returns, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZIFRS. Non-GAAP financial measures may not be comparable to similarly titled amounts reported by other companies.

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