Scales
growing New Zealand

SCALES CORPORATION LIMITED
2018 INTERIM REPORT

Agribusiness helps form the backbone of New Zealand's economy. We are passionate about Agribusiness. We believe in creating meaningful relationships and outcomes for our customers, partners, shareholders, employees and the communities that we work within.

Contents

Directors' Report

Tim Goodacre and Andy Borland

The Board is pleased to report a strong start to the financial year. Net profit after tax for the Group for the six months ended 30 June 2018 (1H18) was $34.8 million, with net profit after tax for Continuing Operations of $29.3 million. These results represent increases of 22 per cent for the total Group, and 20 per cent for Continuing Operations, on the previous half year, ended 30 June 2017 (1H17) (restated).

Highlights

Highlights for 1H18 included:

- Positive first half trading across the Group. In particular:
  - Another record year of volumes at Mr Apple.
  - Improved utilisation and volumes within Storage & Logistics.
  - An increase in volumes sold within Food Ingredients.
- The sale and settlement of the Liqueo business in August 2018.
- The conditional sale of Polarcold in June 2018.

EBITDA[1] for the Group for the six month period was $57.1 million, with EBITDA for Continuing Operations of $46.7 million, and $10.4 million for Discontinued Operations (Polarcold and Liqueo).

In the Horticulture division, Mr Apple capitalised on a return to expected growing conditions after the challenging season in 2017 to deliver another record crop and export volume. It also continued to benefit from ongoing investment in the Middle East and China markets and strong demand from Europe, delivering an overall increase in apple prices.

The Storage & Logistics division delivered a satisfying result with increased volumes and improved utilisation building on prior year operations. The sale of Liqueo settled on 13 August 2018 and the sale of Polarcold, effective 1 June 2018, is only subject to Overseas Investment Office (OIO) approval. There was also a significant increase in sales volumes at Meateor Foods in our Food Ingredients division due to favourable market conditions.

Our financial position continues to be strong:

- Net tangible assets per share as at 30 June 2018 were $1.56, compared to $1.55 as at 30 June 2017 (restated).
- The ratio of net debt to equity as at 30 June 2018 was 33 per cent, compared to 29 per cent as at 30 June 2017 (restated).
- Average net debt (being the average of the 30 June and 31 December net debt balances) was $60.0 million as at 30 June 2018, compared to $51.8 million as at 30 June 2017 (restated), an increase of $8.2 million. This increase was primarily due to increases in working capital and the exclusion of Polarcold and Liqueo cash balances.

[1] *Earnings Before Interest, Tax, Depreciation and Amortisation.*

Divisions

Horticulture

Our Horticulture division delivered higher volumes due, in part, to more settled growing conditions. Mr Apple's own grown export volume was up around nine per cent on the prior year to 3.86 million TCEs (tray carton equivalent) and we achieved an export packout rate of 76 per cent.

Our premium variety volumes saw a significant 17 per cent increase to 1.89 million TCEs, almost half our overall volume, in line with our orchard redevelopment strategy. We also delivered a two per cent increase in traditional variety volumes to 1.97 million TCEs.

Weighted average sale prices were ahead of last year, supported by favourable market conditions. However, we have anticipated a softening in demand for the conclusion of the season.

There is ongoing good progress on our strategy to become a leading apple brand in China, taking advantage of the fact there is currently no dominant brand in that market. Our sales effort continues to be supported by our shareholder, China Resources Ng Fung Limited, and we continue to increase production of premium varieties that specifically cater to the Asia and Middle East markets. This includes our ongoing investment in brands such as Dazzle®.

Storage & Logistics

It was a strong first six months of the year for the Storage & Logistics division, with more settled cropping conditions resulting in higher volumes and utilisation for Polarcold and Scales Logistics, and improved trading in our Auckland coldstore and at Liqueo.

The sale of two of our Storage & Logistics businesses, Liqueo and Polarcold, is in line with our refreshed strategy noted in our 2017 Annual Report and at our Annual Shareholders' Meeting. These divestments will allow us to allocate capital to agribusiness-focussed opportunities that align with our strengths.

Food Ingredients

Once again Meateor increased sales volumes and delivered a solid financial contribution, partly supported by favourable market conditions. However, sales volumes are expected to be lower during the second half of the year.

Profruit also benefited from increased volumes due to a larger apple crop and lower export packout.

Sustainability

We continued our sustainability journey over the last six months with progress on a number of initiatives.

Our people continue to be our number one asset. Our results reflect strong performances across all divisions and this is testament to the hard work and contribution of every member of the Scales team. For that reason, we undertook a group-wide staff engagement survey in August, with results due in October.

Health & Safety remains a high priority for us. Some of the initiatives this year in Health & Safety have been the creation of three new Health & Safety positions around the Group and the delivery of safety culture workshops at Mr Apple.

We are committed to leaving our businesses better for the next generation and consequently a number of environmental programs have either commenced or are being explored including waste audits, discussions with suppliers regarding packaging changes, increased recycling options and a carbon footprint certification for Mr Apple.

Strategy

As previously mentioned, our revised strategy is for a greater focus on pure agribusiness. In particular we are attracted to opportunities that align with our core strengths. The divestment of Liqueo and Polarcold was the first phase of that strategy and the proceeds of those sales will be employed in growth and acquisition opportunities, a number of which we are currently assessing.

Outlook

The outlook for Scales, and the overall agribusiness environment, remains positive.

The Horticulture division has benefited this year from more stable growing conditions and strong markets. We have increased production of premium apples this year and continue to focus on this, and on further developing the Mr Apple and varietal brands, particularly for the Asia and Middle East markets.

Scales Logistics continues to grow with the OceanAir operations, acquired in 2017, now fully integrated into this business.

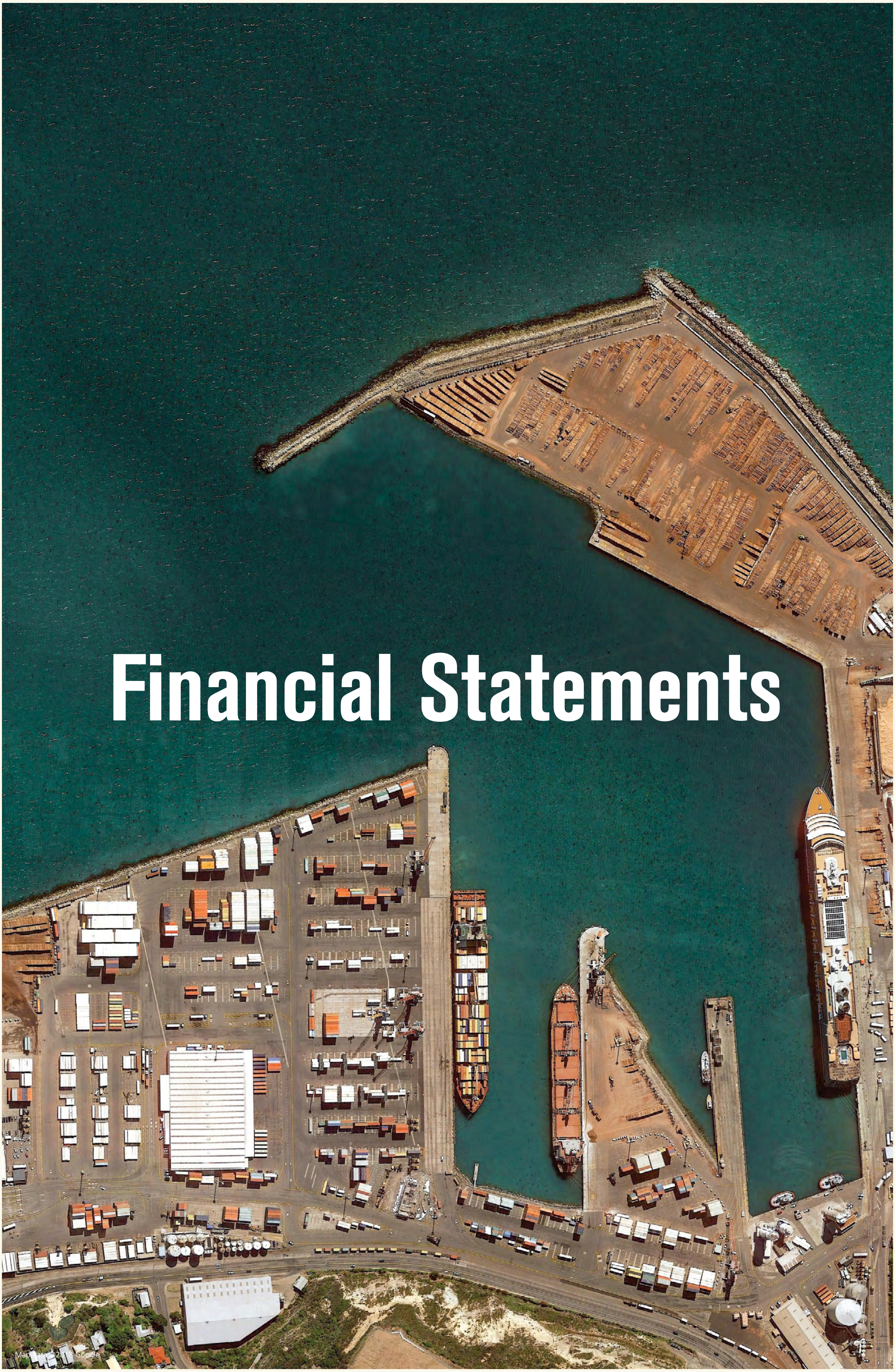
In the Food Ingredients division, volumes have shown good growth. We continue to be focussed on adding value to, and increasing supply of, raw material at Meateor. At Profruit, the larger apple crop and lower export packout has resulted in increased supply.

Lastly, sincere thanks go to all of our staff and stakeholders, who make Scales the business that it is. We look forward to reporting our progress in our full year report.

Tim Goodacre
Chairman

Andy Borland
Managing Director

Financial Statements



Deloitte.

Independent Review Report
to the Shareholders of Scales Corporation Limited

We have reviewed the condensed consolidated interim financial statements of Scales Corporation Limited and its subsidiaries (the 'Group') which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of comprehensive income for the six months ended 30 June 2018, consolidated statement of changes in equity and consolidated statement of cash flows, and a summary of significant accounting policies and other explanatory information on pages 8 to 25.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

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

Our Responsibilities

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

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

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

Other than in our capacity as auditor and the provision of other assurance services, we have no relationship with or interests in Scales Corporation Limited or its subsidiaries.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 June 2018 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

Deloitte Limited

Chartered Accountants
27 August 2018
Christchurch, New Zealand

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		UNAUDITED		
		Six months ended 30 June 2018	Six months ended 30 June 2017 (Restated)*	Year ended 31 December 2017 (Restated)*
Continuing Operations	**NOTE**	$000's	$000's	$000's
Revenue		220,120	175,806	335,531
Cost of sales		(153,982)	(117,386)	(256,682)
		66,138	**58,420**	**78,849**
Share of profits of entities accounted for using the equity method		678	393	1,376
Administration and operating expenses		(20,091)	(19,550)	(34,286)
Other income		17	9	1
Other losses		-	(224)	(635)
EBITDA		**46,742**	**39,048**	**45,305**
Depreciation and amortisation		(4,599)	(3,477)	(8,579)
EBIT		**42,143**	**35,571**	**36,726**
Finance revenue		17	24	155
Finance cost		(1,592)	(1,679)	(3,039)
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		**40,568**	**33,916**	**33,842**
Income tax expense		(11,237)	(9,490)	(9,277)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**29,331**	**24,426**	**24,565**
Profit from discontinued operations (net of tax)	9	5,436	4,008	7,052
PROFIT FOR THE PERIOD		**34,767**	**28,434**	**31,617**
Profit for the period from continuing operations is attributable to:				
Equity holders of the Company		29,094	24,292	24,124
Non-controlling Interests		237	134	441
		29,331	**24,426**	**24,565**

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

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:				
Basic and diluted earnings per share (cents)				
Basic earnings per share (cents) - continuing operations	5	20.8	17.6	17.4
Basic earnings per share (cents) - discontinued operations	5	3.9	2.9	5.1
Basic earnings per share (cents) - total	5	24.7	20.5	22.5
Diluted earnings per share (cents) - continuing operations	5	20.8	17.5	17.3
Diluted earnings per share (cents) - discontinued operations	5	3.9	2.9	5.1
Diluted earnings per share (cents) - total	5	24.7	20.4	22.4

The notes to the financial statements on pages 15 to 25 form part of and should be read in conjunction with this statement.

**The restatements to comparative periods are explained in Notes 2 and 11.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	UNAUDITED		
	Six months ended 30 June 2018	Six months ended 30 June 2017 (Restated)*	Year ended 31 December 2017 (Restated)*
OTHER COMPREHENSIVE INCOME	$000's	$000's	$000's
Continuing Operations			
Items that may be reclassified subsequently to profit or loss:			
(Loss) gain on cash flow hedges	(9,110)	7,700	(6,163)
Income tax relating to cash flow hedges	2,551	(2,156)	1,726
	(6,559)	**5,544**	**(4,437)**
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings	-	-	4,200
Income tax relating to buildings	-	-	(588)
	-	**-**	**3,612**
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	**(6,559)**	**5,544**	**(825)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**28,208**	**33,978**	**30,792**
Total comprehensive income for the period attributable to:			
Equity holders of the Company	28,010	33,762	30,351
Non-controlling Interests	198	216	441
	28,208	**33,978**	**30,792**

The notes to the financial statements on pages 15 to 25 form part of and should be read in conjunction with this statement.

**The restatements to comparative periods are explained in Notes 2 and 11.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	UNAUDITED								
	Share Capital	Revaluation Reserve	Hedging Reserve	Equity-settled Employee Benefits Reserve	Revaluation Reserve related to discontinued operations	Retained Earnings	Attributable to Owners of the Company	Non - controlling Interests	Total
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
SIX MONTHS ENDED 30 JUNE 2018									
At 1 January 2018	93,750	61,329	3,695	430	-	62,272	221,476	441	221,917
Profit for the period	-	-	-	-	-	34,530	34,530	237	34,767
Other comprehensive loss for the period	-	-	(6,520)	-	-	-	(6,520)	(39)	(6,559)
Total comprehensive (loss) income for the period	-	-	(6,520)	-	-	34,530	28,010	198	28,208
Discontinued operations	-	(26,041)	-	-	26,041	-	-	-	-
Recognition of share-based payments	-	-	-	223	-	-	223	-	223
Shares sold	109	-	-	-	-	-	109	-	109
Shares fully vested	191	-	-	(31)	-	(46)	114	-	114
Dividends paid	-	-	-	-	-	-	-	(440)	(440)
Dividends declared	-	-	-	-	-	(12,598)	(12,598)	-	(12,598)
AT 30 JUNE 2018	**94,050**	**35,288**	**(2,825)**	**622**	**26,041**	**84,158**	**237,334**	**199**	**237,533**
SIX MONTHS ENDED 30 JUNE 2017 (Restated)*									
At 1 January 2017	89,748	57,717	8,132	503	-	58,084	214,184	406	214,590
Profit for the period	-	-	-	-	-	28,300	28,300	134	28,434
Other comprehensive income for the period	-	-	5,462	-	-	-	5,462	82	5,544
Total comprehensive income for the period	-	-	5,462	-	-	28,300	33,762	216	33,978
Recognition of share-based payments	-	-	-	203	-	-	203	-	203
Shares sold	106	-	-	-	-	-	106	-	106
Dividends paid	-	-	-	-	-	-	-	(406)	(406)
Dividends declared	-	-	-	-	-	(13,811)	(13,811)	-	(13,811)
AT 30 JUNE 2017	**89,854**	**57,717**	**13,594**	**706**	**-**	**72,573**	**234,444**	**216**	**234,660**
YEAR ENDED 31 DECEMBER 2017 (Restated)*									
At 1 January 2017	89,748	57,717	8,132	503	-	58,084	214,184	406	214,590
Profit for the year	-	-	-	-	-	31,176	31,176	441	31,617
Other comprehensive loss for the year	-	3,612	(4,437)	-	-	-	(825)	-	(825)
Total comprehensive income (loss) for the year	-	3,612	(4,437)	-	-	31,176	30,351	441	30,792
Recognition of share-based payments	-	-	-	389	-	-	389	-	389
Shares sold	179	-	-	-	-	-	179	-	179
Shares issued	970	-	-	-	-	-	970	-	970
Shares fully vested	2,853	-	-	(462)	-	(591)	1,800	-	1,800
Dividends paid	-	-	-	-	-	(13,811)	(13,811)	(406)	(14,217)
Dividends declared	-	-	-	-	-	(12,586)	(12,586)	-	(12,586)
AT 31 DECEMBER 2017	**93,750**	**61,329**	**3,695**	**430**	**-**	**62,272**	**221,476**	**441**	**221,917**

The notes to the financial statements on pages 15 to 25 form part of and should be read in conjunction with this statement.

**The restatements to comparative periods are explained in Notes 2 and 11.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	NOTE	30 June 2018 $000's	UNAUDITED 30 June 2017 (Restated)* $000's	31 December 2017 (Restated)* $000's
EQUITY				
Share capital		94,050	89,854	93,750
Revaluation reserve		35,288	57,717	61,329
Hedging reserve		(2,825)	13,594	3,695
Equity-settled employee benefits reserve		622	706	430
Revaluation reserve related to discontinued operations		26,041	-	-
Retained earnings		84,158	72,573	62,272
Equity attributable to Scales Corporation Limited Shareholders		**237,334**	**234,444**	**221,476**
Equity attributable to Non-controlling Interests		199	216	441
TOTAL EQUITY		**237,533**	**234,660**	**221,917**
Represented By:				
CURRENT ASSETS				
Cash and bank balances		1,841	15,124	5,690
Trade and other receivables		73,361	66,232	23,437
Other financial assets	7	3,917	8,565	6,415
Agricultural produce		61,558	64,750	20,189
Inventories		27,750	22,398	22,212
Prepayments		1,809	2,268	3,423
		170,236	**179,337**	**81,366**
Assets held for sale		111,995	-	-
TOTAL CURRENT ASSETS		**282,231**	**179,337**	**81,366**
NON-CURRENT ASSETS				
Property, plant and equipment		133,445	225,862	228,881
Investments accounted for using the equity method		4,685	4,024	4,507
Goodwill		16,188	16,222	18,177
Other financial assets	7	5,235	15,716	7,764
Computer software		1,135	674	1,811
TOTAL NON-CURRENT ASSETS		**160,688**	**262,498**	**261,140**
TOTAL ASSETS		**442,919**	**441,835**	**342,506**
CURRENT LIABILITIES				
Trade and other payables		57,401	63,178	22,215
Dividend declared	4	12,538	14,006	12,586
Borrowings		41,000	44,000	6,500
Current tax liabilities		14,822	16,076	2,739
Other financial liabilities	7	7,088	1,715	4,331
		132,849	**138,975**	**48,371**
Liabilities associated with assets held for sale		18,303	-	-
TOTAL CURRENT LIABILITIES		**151,152**	**138,975**	**48,371**
NON-CURRENT LIABILITIES				
Borrowings		40,000	40,000	40,000
Deferred tax liabilities		8,666	24,821	28,175
Other financial liabilities	7	5,568	3,379	4,043
TOTAL NON-CURRENT LIABILITIES		**54,234**	**68,200**	**72,218**
TOTAL LIABILITIES		**205,386**	**207,175**	**120,589**
NET ASSETS		**237,533**	**234,660**	**221,917**

The notes to the financial statements on pages 15 to 25 form part of and should be read in conjunction with this statement.

**The restatements to comparative periods are explained in Notes 2 and 11.*

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTE	UNAUDITED Six months ended 30 June 2018 $000's	UNAUDITED Six months ended 30 June 2017 $000's	AUDITED Year ended 31 December 2017 $000's
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from customers		193,889	168,068	393,145
Dividends received		517	500	1,018
Interest received		18	34	175
		194,424	**168,602**	**394,338**
Cash was disbursed to:				
Payments to suppliers and employees		(203,564)	(178,993)	(345,660)
Interest paid		(1,592)	(1,679)	(3,039)
Income tax paid		(5,093)	(5,728)	(13,271)
		(210,249)	**(186,400)**	**(361,970)**
NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES		**(15,825)**	**(17,798)**	**32,368**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Advances repaid		303	81	866
Sale of property, plant and equipment and computer software		-	66	147
		303	**147**	**1,013**
Cash was applied to:				
Net cash outflow on acquisition of businesses		-	-	(978)
Purchase of computer software		(297)	(147)	(1,654)
Purchase of shares in unlisted companies		-	-	(5)
Purchase of property, plant and equipment		(5,301)	(5,283)	(11,826)
		(5,598)	**(5,430)**	**(14,463)**
NET CASH USED IN INVESTING ACTIVITIES		**(5,295)**	**(5,283)**	**(13,450)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Proceeds from term facility borrowings		-	10,000	10,000
Proceeds from seasonal facility borrowings		50,500	39,000	52,500
Treasury stock sold		109	106	179
		50,609	**49,106**	**62,679**
Cash was applied to:				
Repayment of seasonal facility borrowings		(16,000)	(6,000)	(57,000)
Dividends paid		(12,646)	(10,850)	(24,856)
Dividends paid to Non-controlling Interest		(440)	(406)	(406)
		(29,086)	**(17,256)**	**(82,262)**
NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES		**21,523**	**31,850**	**(19,583)**
NET INCREASE (DECREASE) IN NET CASH		**403**	**8,769**	**(665)**
Cash and cash equivalents at the beginning of the period		5,690	6,355	6,355
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**6,093**	**15,124**	**5,690**
Represented by:				
Cash and bank balances		1,841	15,124	5,690
Cash and bank balances attributable to discontinued operations	9	4,252	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**6,093**	**15,124**	**5,690**

The notes to the financial statements on pages 15 to 25 form part of and should be read in conjunction with this statement.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	UNAUDITED		
	Six months ended 30 June 2018	Six months ended 30 June 2017 (Restated)*	Year ended 31 December 2017 (Restated)*
	$000's	$000's	$000's
NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES			
Reconciliation of profit for the period to net cash generated by operating activities:			
Profit for the period	34,767	28,434	31,617
Add non-cash items:			
Deferred tax	(5,935)	(5,522)	1,126
Depreciation and amortisation	7,062	6,222	14,249
Share of equity accounted results	(678)	(393)	(1,376)
Share-based payments	231	203	523
Change in gross liability on Fern Ridge Produce Limited put option	-	224	628
Add items classified as investing and financing activities:			
Working capital amounts included in acquisition of businesses	-	-	(54)
Dividends received from equity accounted company	500	500	1,000
Gain on disposal of property, plant and equipment	193	3	36
Changes in net assets and liabilities:			
Trade and other receivables	(60,857)	(48,704)	(5,908)
Agricultural produce	(41,369)	(46,317)	(1,756)
Inventories	(5,670)	(6,033)	(5,847)
Prepayments	1,382	1,387	232
Trade and other payables	39,978	41,131	168
Current tax	14,571	11,067	(2,270)
NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES	**(15,825)**	**(17,798)**	**32,368**

For and on behalf of the Board, who authorised the issue of these interim financial statements on 27 August 2018.

Tim Goodacre
Chairman

Andy Borland
Managing Director

The notes to the financial statements on pages 15 to 25 form part of and should be read in conjunction with this statement.

**The restatements to comparative periods are explained in Notes 2 and 11.*

1. GENERAL INFORMATION

Scales Corporation Limited (the "Company") is a for-profit entity domiciled and registered under the Companies Act 1993 in New Zealand. It is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The Group consists of Scales Corporation Limited, its subsidiaries and a joint venture. The principal activities of the Group are to provide logistics services, grow apples, export products, provide insurance services to companies within the Group and operate storage and processing facilities.

2. FINANCIAL STATEMENTS

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

Non-current assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

Application of NZ IFRS 9 (2014) *Financial Instruments*

Application of NZ IFRS 9 (2014) *Financial Instruments* which became effective on 1 January 2018 resulted in the time value of options and its related tax effect being recognised in other comprehensive income instead of profit or loss. Under NZ IFRS 9 (2014), the time value of options forms a part of the hedging instrument and changes in their value are recognised in other comprehensive income. Comparatives have been restated retrospectively as disclosed in Note 11. The Group has previously adopted NZ IFRS 9 (2010) which amended classification and measurement of financial instruments. Application of NZ IFRS 9 (2014) includes amendments to impairment and hedge accounting.

In relation to the impairment of financial assets, NZ IFRS 9 (2014) requires an expected credit loss model, as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in NZ IAS 39. Under NZ IFRS 9 (2014), greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Impairment

Financial assets measured at amortised cost being cash and cash equivalents, trade receivables, and employee loans are subject to the impairment provisions of NZ IFRS 9 (2014).

The Group applies the simplified approach to recognise lifetime expected credit losses for the above financial assets as required or permitted by NZ IFRS 9 (2014). In general, the application of the expected credit loss model of NZ IFRS 9 (2014) results in earlier recognition of credit losses and increases the amount of loss allowance recognised for those items.

Hedge Accounting

As the new hedge accounting requirements align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicated that they qualified as continuing hedging relationships upon application of NZ IFRS 9 (2014). Similar to the Group's current hedge accounting policy, the directors do not intend to exclude the forward element of foreign currency forward contracts from designated hedging relationships. As described above, the time value of options also forms a part of the hedging instrument.

2. FINANCIAL STATEMENTS (continued)

Application of NZ IFRS 15 *Revenue from Contracts or Customers*

Application of NZ IFRS 15 *Revenue from Contracts with Customers* which became effective on 1 January 2018 resulted in certain apple export contracts being treated as agency export service contracts instead of principal goods purchase and sale contracts. While this has resulted in a reduction in revenue and cost of sales, there was no impact on net income for those periods. Comparatives have been restated retrospectively as disclosed in Note 11.

The Group recognises revenue from the following major sources:

- sale of agricultural produce;
- sale of petfood ingredients;
- agricultural produce related services;
- logistics services.

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

Sale of agricultural produce

The Group sells apples to more than 160 customers in 40 countries. Sales-related quality claim provisions are recorded in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its previous accounting treatment. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer (CIF sales) or when the goods have been sold by the customer (consignment sales).

CIF sales

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

Consignment sales

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

Sale of petfood ingredients

The Group sells petfood ingredients to a number of international and domestic customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customer (DDP sales) or when shipped to the customer (CIF and FOB destination sales).

DDP sales

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

CIF and FOB destination sales

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

Agricultural produce related services

The Group provides a number of agricultural produce related services to external apple growers, including packaging, cartage, export documentation and export services.

Each of those services is considered to be a distinct service as it is both regularly supplied by the Group to customers on a stand-alone basis and is available for customers from other providers in the market.

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

Logistics services

The Group provides marine and air logistics services to domestic customers. A receivable is recognised by the Group when the service performance has been completed, which is when the shipment is organised and the goods are on the ship or the aircraft. The performance obligation is satisfied as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report for the year ended 31 December 2017.

The information is presented in thousands of New Zealand dollars unless otherwise stated.

3. SEASONALITY OF BUSINESS

All business segments are subject to seasonal fluctuation. The apple crop has been picked and packed and the export programme is well under way in the first half of the year. Higher volumes are processed through the food ingredients plants in the first half of the year due to the seasonal nature of the meat industry and there is greater utilisation of storage and logistics services over the first half of the year as seasonal products are stored and then shipped to export markets. At 30 June the harvested apple crop held in inventory is valued at fair value less estimated costs to sell. At 31 December the unharvested crop is at fair value less estimated costs to sell. Both the harvested crop at 30 June and the unharvested crop at 31 December are included in agricultural produce.

4. DIVIDENDS

During the six months ended 30 June 2018 the Directors paid an interim dividend of 9.0 cents per share and resolved to pay a final dividend of 9.0 cents per share in respect of the year ended 31 December 2017. This final dividend was paid on 6 July 2018.

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

5. EARNINGS PER SHARE

	UNAUDITED		
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	$000's	$000's	$000's
Profit attributable to equity holders of the Company - used in the calculation of earnings per share			
From continuing operations	29,094	24,292	24,124
From discontinued operations	5,436	4,008	7,052
Total	**34,530**	**28,300**	**31,176**
Basic and diluted earnings per share			
Weighted average number of ordinary shares	139,769,286	137,998,720	138,738,233
Effect of dilutive ordinary shares (non-vested Senior Executive Share Scheme)	199,783	512,358	751,619
Weighted average number of Ordinary Shares for diluted earnings per share	139,969,069	138,511,078	139,489,852
Basic earnings per share (cents) - continuing operations	20.8	17.6	17.4
Basic earnings per share (cents) - discontinued operations	3.9	2.9	5.1
Basic earnings per share (cents) - total	24.7	20.5	22.5
Diluted earnings per share (cents) - continuing operations	20.8	17.5	17.3
Diluted earnings per share (cents) - discontinued operations	3.9	2.9	5.1
Diluted earnings per share (cents) - total	24.7	20.4	22.4

6. SEGMENT INFORMATION

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. No single external customer's revenue accounts for 10% or more of the Group's revenue. All non-current assets are located in New Zealand.

The Group's continuing operations comprise the following operating segments:

Food Ingredients: processing and marketing of food ingredients such as pet food ingredients and juice concentrate. Meateor Group Limited, 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.

Logistics: logistics services. Scales Logistics Limited and OceanAir Freight Pty Limited.

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

	Food Ingredients $000's	Horticulture $000's	Logistics $000's	Other $000's	Eliminations $000's	Total $000's
Six months ended 30 June 2018						
Total segment revenue	45,521	143,842	46,222	1,875	(17,340)	220,120
Inter-segment revenue	-	-	(15,655)	(1,685)	17,340	-
Revenue from external customers	**45,521**	**143,842**	**30,567**	**190**	**-**	**220,120**
Segment profit (loss) before income tax	5,945	36,108	2,796	(4,281)	-	40,568
Segment assets	38,013	280,881	15,114	(3,084)	-	330,924
Segment liabilities	9,819	85,772	9,056	82,436	-	187,083
Six months ended 30 June 2017 (Restated)						
Total segment revenue	33,978	120,335	36,927	1,934	(17,368)	175,806
Inter-segment revenue	-	-	(15,777)	(1,591)	17,368	-
Revenue from external customers	**33,978**	**120,335**	**21,150**	**343**	**-**	**175,806**
Segment profit (loss) before income tax	3,754	32,168	3,022	(5,028)	-	33,916
Segment assets	29,850	296,415	8,828	(2,407)	-	332,686
Segment liabilities	6,762	96,651	1,595	82,657	-	187,665
Year ended 31 December 2017 (Restated)						
Total segment revenue	68,855	221,963	67,560	3,779	(26,626)	335,531
Inter-segment revenue	-	-	(23,495)	(3,131)	26,626	-
Revenue from external customers	**68,855**	**221,963**	**44,065**	**648**	**-**	**335,531**
Segment profit (loss) before income tax	7,511	30,495	3,419	(7,583)	-	33,842
Segment assets	35,743	182,362	9,484	4,198	-	231,787
Segment liabilities	7,906	38,229	5,103	51,299	-	102,537

7. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

	UNAUDITED		AUDITED
	Six months ended 30 June 2018 $000's	Six months ended 30 June 2017 $000's	31 December 2017 $000's
Current financial assets:			
At fair value:			
Foreign currency derivative instruments	3,917	8,542	6,415
At amortised cost:			
Advances to other entities	-	23	-
	3,917	**8,565**	**6,415**
Non-current financial assets:			
At fair value:			
Foreign currency derivative instruments	4,180	15,406	6,544
Shares in unlisted companies	211	206	211
At amortised cost:			
Employee loans	844	104	1,009
	5,235	**15,716**	**7,764**
Current financial liabilities at fair value:			
Foreign currency derivative instruments	4,023	496	1,312
Interest rate swap contracts and forward rate agreements	495	150	481
Fern Ridge Produce Limited put option	2,570	1,069	2,538
	7,088	**1,715**	**4,331**
Non-current financial liabilities at fair value:			
Foreign currency derivative instruments	4,817	1,310	3,318
Interest rate swap contracts and forward rate agreements	751	1,005	725
Fern Ridge Produce Limited put option	-	1,064	-
	5,568	**3,379**	**4,043**

Foreign Currency Derivative Instruments

The Group is exposed to currency risk as a result of normal trading transactions denominated in foreign currencies. The Group uses foreign currency derivative financial instruments to manage its currency risk. 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.

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 2018 to 2022 financial years at which stage the amount deferred in equity will be released into profit or loss.

7. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES (continued)

Interest Rate Swap Contracts and Forward Rate Agreements

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 uses interest rate swaps and forward rate agreements to manage interest rate risk.

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

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.

8. RELATED PARTY DISCLOSURES

(a) Transactions with Related Parties

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

(b) Key Management Personnel Remuneration

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

	UNAUDITED		AUDITED
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	$000's	$000's	$000's
Short-term employee benefits	1,471	1,491	2,820
Share-based payments	850	394	433
Post-employment benefits	52	53	102
	2,373	**1,938**	**3,355**

(c) Transactions with Equity Accounted Entity

	UNAUDITED		AUDITED
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	$000's	$000's	$000's
Revenue from sale of goods	1,165	700	890
Revenue from services	-	351	968
Dividends received	500	500	1,000
Trade receivables at balance date	111	4	76

9. DISCONTINUED OPERATIONS

On 9 May 2018 the Company announced an agreement to sell its coldstorage businesses, Polarcold Stores Limited and Whakatu Coldstores Limited (which were merged on 1 January 2018 under the Polarcold brand). The sale, for consideration of $151.4 million, is to Emergent Cold, a global cold chain company. The transaction is subject only to OIO approval, after which it becomes effective from 1 June 2018. All earnings post 1 June 2018 accrue to the purchaser. Interest will be charged on the purchase price until the sole condition is satisfied. These two elements will be reflected as a purchase price adjustment and have been factored into the consideration referred to above.

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

The results of discontinued operations are set out below:

		UNAUDITED	
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	$000's	$000's	$000's
Revenue	35,097	29,804	57,570
Expenses	(27,169)	(24,013)	(47,668)
Profit before tax from discontinued operations	**7,928**	**5,791**	**9,902**
Income tax expense	(2,492)	(1,783)	(2,850)
Profit for the period from discontinued operations	5,436	4,008	7,052

The major classes of assets and liabilities of Polarcold Stores Limited, Whakatu Coldstores Limited and Liqueo Bulk Storage Limited classified as held for sale as at 30 June 2018 are as follows:

	UNAUDITED
Assets	
Cash and bank balances	4,252
Trade and other receivables	10,936
Inventories	132
Prepayments	232
Property, plant and equipment	93,895
Goodwill	1,989
Computer software	559
	111,995
Liabilities	
Trade and other payables	4,792
Current tax liabilities	2,488
Deferred tax liabilities	11,023
	18,303
Net assets directly associated with disposal group	**93,692**
Amounts included in accumulated other comprehensive income:	
Revaluation reserve	26,041
Reserve related to discontinued operations	**26,041**

9. DISCONTINUED OPERATIONS (continued)

	UNAUDITED		
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	$000's	$000's	$000's
The net cash flows pertaining to the entities referred to above are as follows:			
Operating	7,289	7,536	10,832
Investing	(1,727)	(1,949)	(3,759)
Financing	-	-	-
Net cash inflow	**5,562**	**5,587**	**7,073**

10. CAPITAL COMMITMENTS

	UNAUDITED		
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	$000's	$000's	$000's
Commitments entered into as at reporting date were:			
Bearer plants	1,911	1,389	2,161
	1,911	**1,389**	**2,161**

11. SUMMARY OF RESTATEMENTS

As described in Note 2, comparative periods were restated following the adoption of NZ IFRS 9 and NZ IFRS 15. In addition, comparative periods were restated as required by NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Six months ended 30 June 2017	Previously Reported	Adjustments			Restated
		NZ IFRS 5	NZ IFRS 9	NZ IFRS 15	
	$000's	$000's	$000's	$000's	$000's
Continuing Operations					
Revenue	216,748	(29,807)	-	(11,135)	175,806
Cost of Sales	(141,271)	12,750	-	11,135	(117,386)
	75,477	**(17,057)**	**-**	**-**	**58,420**
Share of profits of entity accounted for using the equity method	393	-	-	-	393
Administration and operating expenses	(28,070)	8,520	-	-	(19,550)
Other income	833	8	(832)	-	9
Other losses	(227)	3	-	-	(224)
EBITDA	**48,406**	**(8,526)**	**(832)**	**-**	**39,048**
Depreciation and amortisation	(6,222)	2,745	-	-	(3,477)
EBIT	**42,184**	**(5,781)**	**(832)**	**-**	**35,571**
Finance revenue	34	(10)	-	-	24
Finance cost	(1,679)	-	-	-	(1,679)
Profit before income tax expense from continuing operations	**40,539**	**(5,791)**	**(832)**	**-**	**33,916**
Income tax expense	(11,506)	1,783	233	-	(9,490)
Profit for the period from continuing operations	**29,033**	**(4,008)**	**(599)**	**-**	**24,426**
Profit from discontinued operations (net of tax)	-	4,008	-	-	4,008
PROFIT FOR THE PERIOD	**29,033**	**-**	**(599)**	**-**	**28,434**

11. SUMMARY OF RESTATEMENTS (continued)

Year ended 31 December 2017	Previously Reported	Adjustments			Restated
		NZ IFRS 5	NZ IFRS 9	NZ IFRS 15	
	$000's	$000's	$000's	$000's	$000's
Continuing Operations					
Revenue	399,100	(57,562)	-	(6,007)	335,531
Cost of Sales	(287,102)	24,413	-	6,007	(256,682)
	111,998	**(33,149)**	**-**	**-**	**78,849**
Share of profits of entity accounted for using the equity method	1,376	-	-	-	1,376
Administration and operating expenses	(51,871)	17,585	-	-	(34,286)
Other income	233	(18)	(214)	-	1
Other losses	(665)	30	-	-	(635)
EBITDA	**61,071**	**(15,552)**	**(214)**	**-**	**45,305**
Depreciation and amortisation	(14,249)	5,670	-	-	(8,579)
EBIT	**46,822**	**(9,882)**	**(214)**	**-**	**36,726**
Finance revenue	175	(20)	-	-	155
Finance cost	(3,039)	-	-	-	(3,039)
Profit before income tax expense from continuing operations	**43,958**	**(9,902)**	**(214)**	**-**	**33,842**
Income tax expense	(12,187)	2,850	60	-	(9,277)
Profit for the period from continuing operations	**31,771**	**(7,052)**	**(154)**	**-**	**24,565**
Profit from discontinued operations (net of tax)	-	7,052	-	-	7,052
PROFIT FOR THE PERIOD	**31,771**	**-**	**(154)**	**-**	**31,617**

12. DISAGGREGATION OF REVENUE

	UNAUDITED		
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	$000's	$000's	$000's
Sale of agricultural produce	134,797	109,536	209,631
Sale of petfood ingredients	44,977	33,521	69,117
Agricultural produce related services	6,905	8,578	9,056
Logistics services	30,567	21,150	44,065
Other	2,874	3,021	3,662
	220,120	**175,806**	**335,531**

All major sources of revenue are recognised at a point in time as disclosed in Note 2.
Revenue breakdown by operating segments is disclosed in Note 6.

13. EVENTS OCCURING AFTER THE REPORTING DATE

Other than as disclosed in Note 9, there were no events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

DIRECTORY

Board of Directors

Tim Goodacre (Chairman)
Andrew Borland (Managing Director)
Nick Harris
Mark Hutton
Alan Isaac
Weiyong Wang
Nelson Liu (Alternate Director for Weiyong Wang, appointed 15 June 2018)

Audit and Risk Management Committee

Alan Isaac (Chairman)
Nick Harris
Mark Hutton

Nominations and Remuneration Committee

Mark Hutton (Chairman)
Tim Goodacre

Finance and Treasury Committee

Mark Hutton (Chairman)
Andrew Borland

Health and Safety Committee

Nick Harris (Chairman)
Andrew Borland

Registered Office

52 Cashel Street
Christchurch 8013
New Zealand

Postal Address

PO Box 1590
Christchurch 8140
New Zealand

Telephone

64-3-379-7720

Website

www.scalescorporation.co.nz

DIRECTORY

Auditor

Deloitte Limited

Level 4
151 Cambridge Terrace
Christchurch 8013

Bankers

ANZ Bank New Zealand Limited

Level 3
ANZ Centre
267 High Street
Christchurch 8011

Rabobank New Zealand Limited

Level 23
157 Lambton Quay
Wellington 6011

Westpac New Zealand Limited

Level 4
The Terrace
83 Cashel Street
Christchurch 8011

Solicitors

Anthony Harper

Level 9
HSBC Tower
62 Worcester Boulevard
Christchurch 8013

Chapman Tripp

23 Albert Street
Auckland 1010

Corporate Adviser

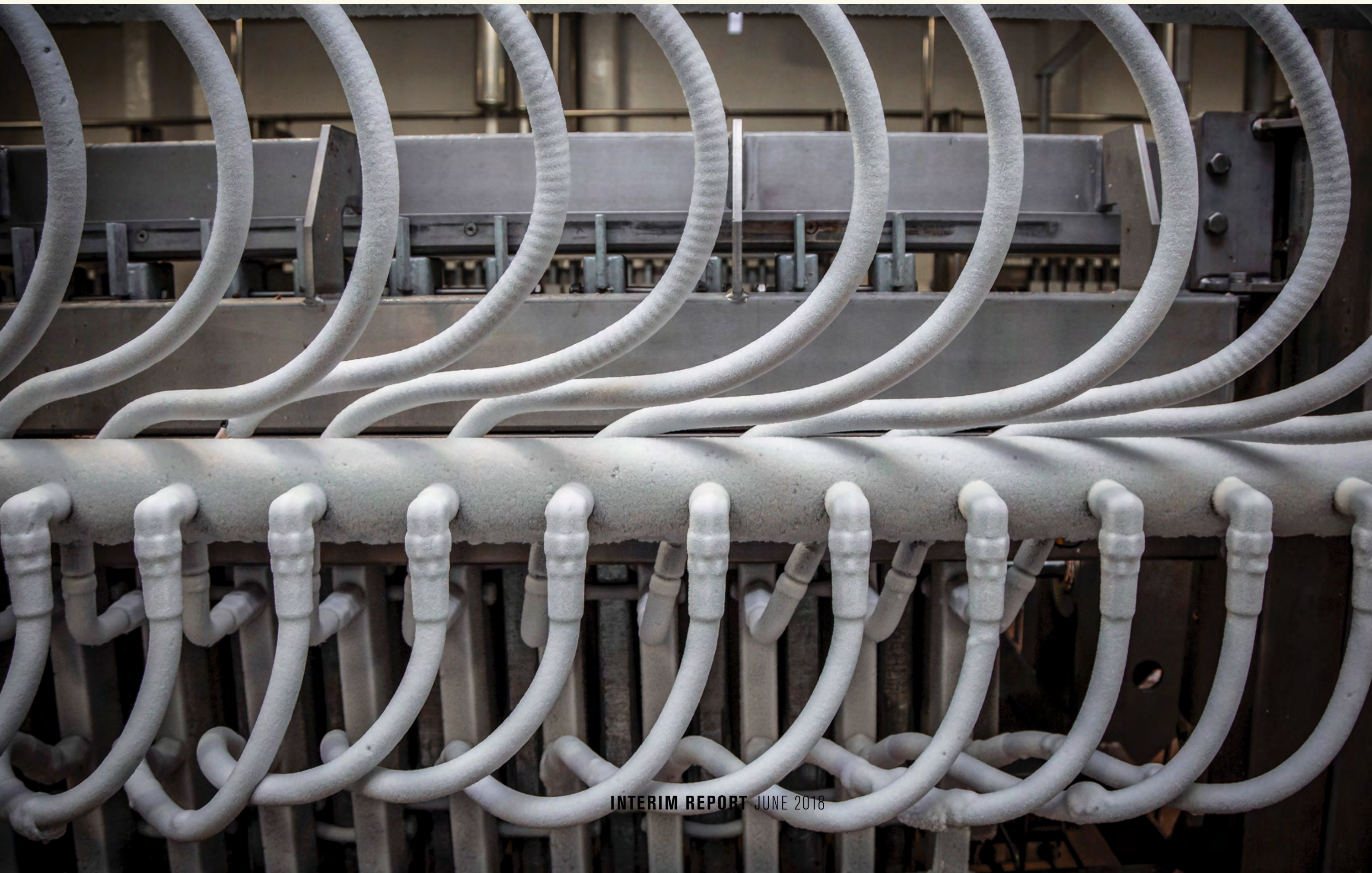
Maher & Associates

17 Albert Street
Auckland 1010

Share Registry

Computershare Investor Services Limited

Level 2
159 Hurstmere Road
Takapuna
North Shore City
Auckland 0622



SCALES CORPORATION LIMITED

52 CASHEL STREET, CHRISTCHURCH 8013, NEW ZEALAND
WWW.SCALESCORPORATION.CO.NZ