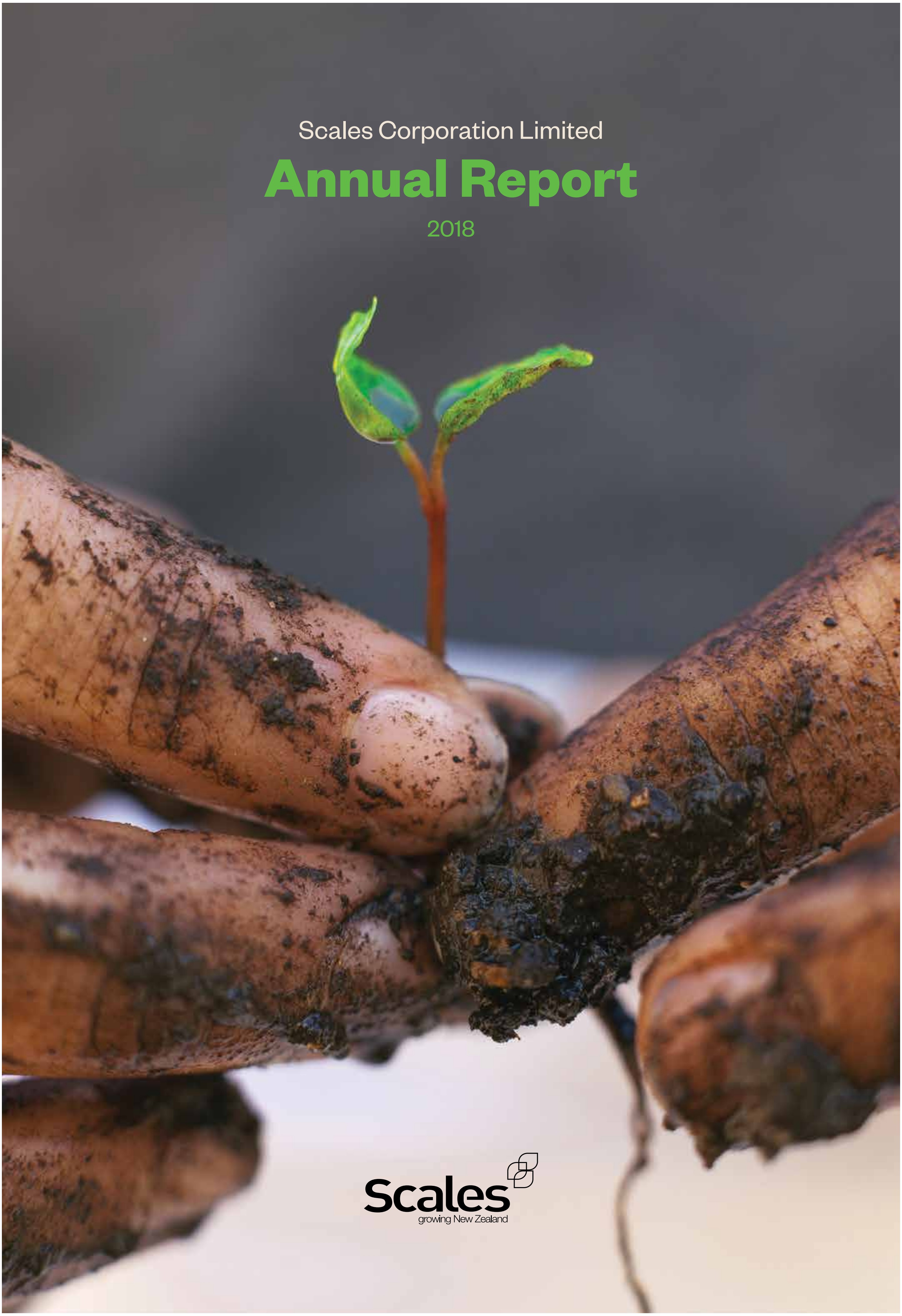
Scales Corporation Limited

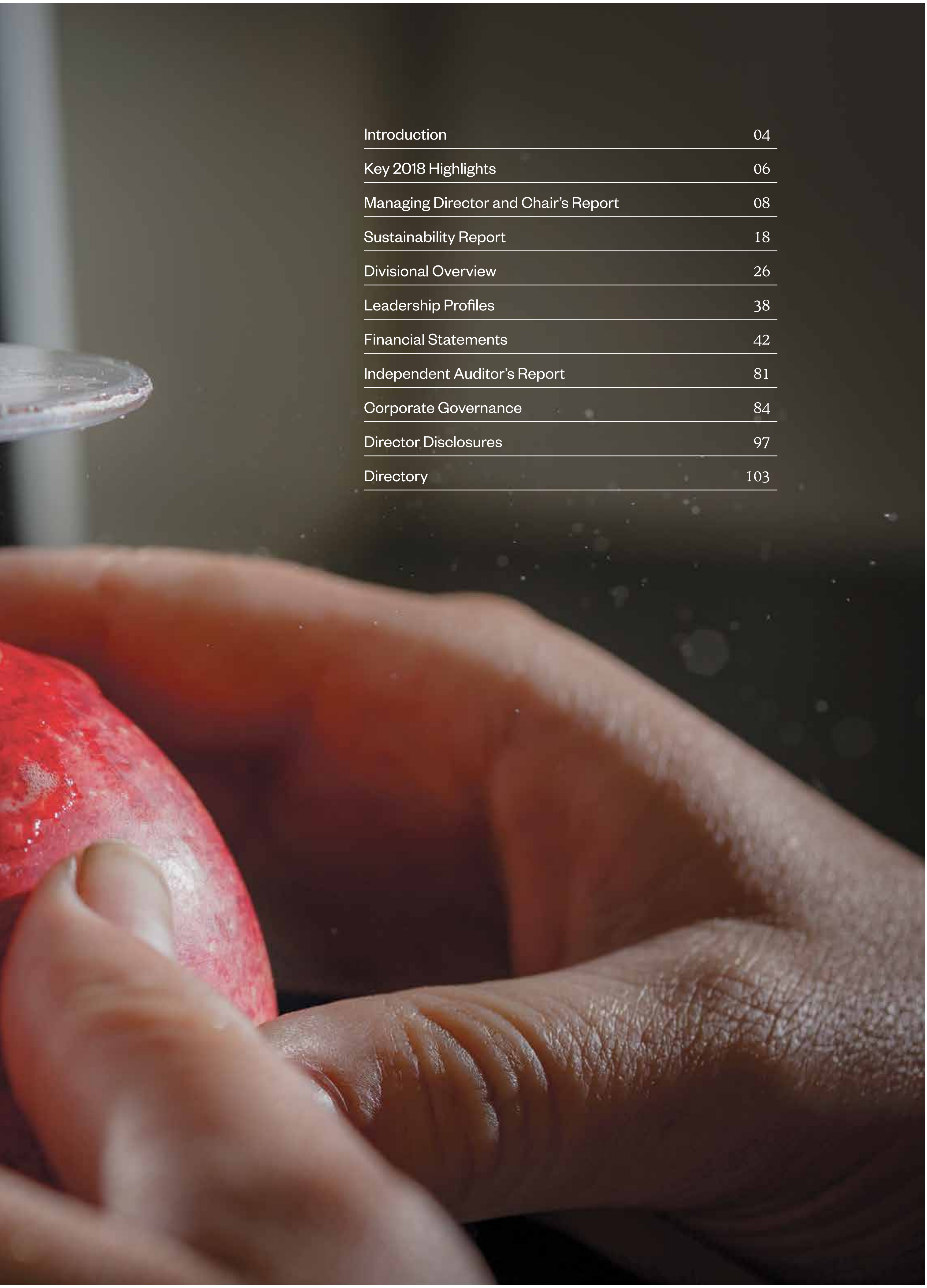
Annual Report

2018



Scales
growing New Zealand

We've been active in research and development within the agribusiness sector during the last 100 years.



> “In its 107th year, Scales is showing that it is continuing to evolve to capitalise on: global and local markets, environmental and governmental matters.”

2018 commenced a period of change for the Scales group. We provided details of a refreshed strategy in our 2017 annual report, adopting a greater focus on pure agribusiness to take advantage of changes and opportunities in the sector. Accordingly, during 2018, we divested 2 of our storage businesses (one subject to Overseas Investment Office (OIO) approval) and acquired a controlling stake in a US based petfood ingredient manufacturer. As we go to print in 2019, we have also been able to announce a further partnership within our petfood business.

While we undergo the change and refresh, shareholders can be assured that our day-to-day focus, on managing our ongoing core businesses, does not diminish.

In its 107th year, Scales is showing that it is continuing to evolve to capitalise on: global and local markets, environmental and governmental matters. With the skills and passion of our team, we will continue to work towards our vision of being the foremost investor in, and grower of, New Zealand agribusiness.

Horticulture

Vertically integrated apple grower, packer & marketer

Apple marketer[a]

Storage & Logistics

Temperature controlled storage[b]

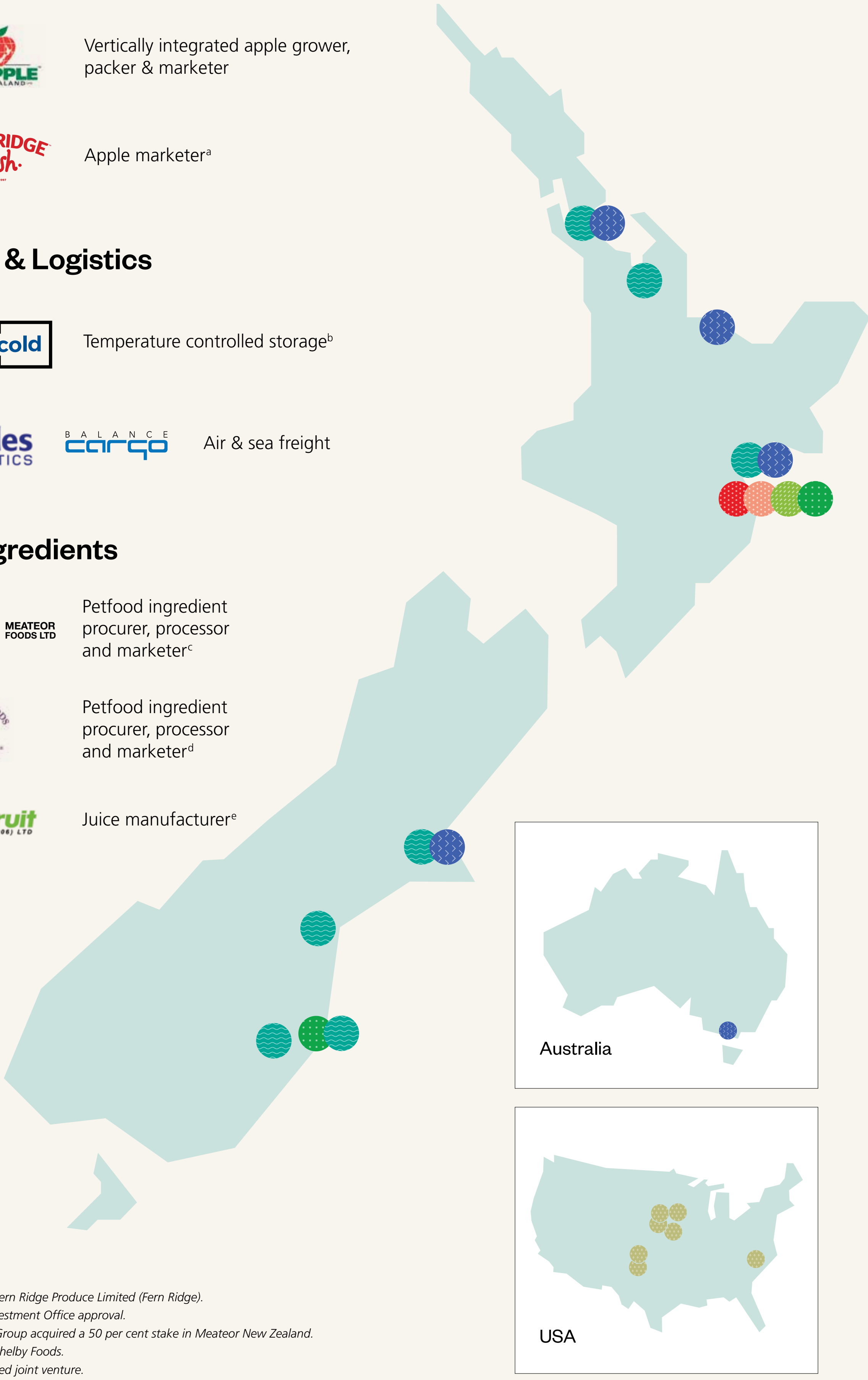
Air & sea freight

Food Ingredients

Petfood ingredient procurer, processor and marketer[c]

Petfood ingredient procurer, processor and marketer[d]

Juice manufacturer[e]



[a] *Scales owns 73 per cent of Fern Ridge Produce Limited (Fern Ridge).*
[b] *Sold, subject to Overseas Investment Office approval.*
[c] *On 7 March 2019, Alliance Group acquired a 50 per cent stake in Meateor New Zealand.*
[d] *Scales owns 60 per cent of Shelby Foods.*
[e] *Profruit is a 50 per cent owned joint venture.*

The numbers at-hand

Underlying Net Profit
$35.8m
9% increase on 2017

Underlying EBITDA
$67.1m
8% increase on 2017

85%
response rate in the inaugural
staff engagement survey

5.83m
TCEs
of apples exported, up 4%

79%
increase in
safety reporting

6.2m
litres of juice sold up 10%

32.2c
earnings per share (EPS)
(2017: 22.5 cents)

9,251
airfreight tonnes
handled, up 49%

370+
third-party audits
undertaken to maintain our certifications

New record Underlying Revenue

$464.7m

18% increase on 2017

Increased interim dividend of
9.5c
per share declared
(2017: 9.0 cents)

3.87m
TCEs[1]
of own-grown apples exported, up 9%

Return on Capital Employed[2]
(ROCE) maintained at
17%

29,028
tonnes
of petfood ingredients sold, up 5%

First
CEMARS®
certification
process undertaken[3]

700+
permanent staff members
increasing to over 2,500 total staff members at the height of the apple harvest season[4]

100%
of companies with an updated
Business Continuity Plan

35,210
TEUs[5]
shipped
up 19%

3
acquisition or disposal
contracts signed

1 *Tray Carton Equivalent.*
2 *Calculated as Underlying EBIT divided by the average of opening and closing capital employed.*
3 *Certified Emissions Measurement And Reduction Scheme, undertaken by Enviro-Mark Solutions Limited.*
4 *Including Polarcold, excluding Liqueo and Shelby.*
5 *Twenty-foot equivalent unit.*

Managing Director
and Chair’s Report

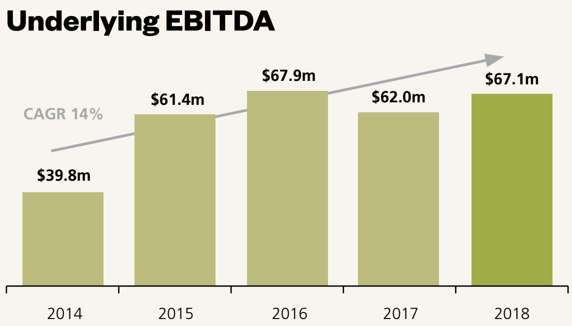
Commitment to excellence

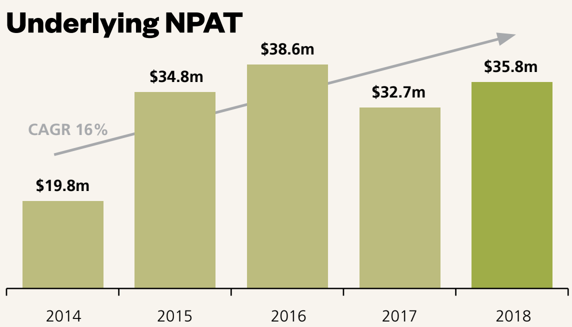
On behalf of the Board, we are delighted to present Scales' Annual Report for the year ended 31 December 2018.

It has been a record breaking year with the Group delivering record Underlying[6] Revenue of $464.7 million together with Underlying EBITDA of $67.1 million and Underlying Net Profit of $35.8 million. This was a very satisfying result, supported by strong performances across all divisions, and which reflected the attention to detail and commitment to excellence throughout the Scales team.

	2018 $'000	2017 $'000 (Restated)	Variance
Underlying Revenue	464,707	393,093	18%
Underlying EBITDA	67,057	62,007	8%
Underlying Net Profit	35,814	32,730	9%
Net Profit	45,499	31,617	44%

Underlying EBITDA (our preferred profitability metric) has increased by 68 per cent since 2014 at a compounding annual growth rate (CAGR) of 14 per cent.





[6] *Underlying results are considered by Management and the Board to be the best financial measures to describe the ongoing performance of Scales. Underlying results exclude some New Zealand International Financial Reporting Standards (NZ IFRS) non-cash adjustments (namely, change in fair value gain on apple inventory, cash-settled and equity-settled share-based payments and change in gross liability for non-controlling interests). Management and the Board believe that Underlying Results more accurately demonstrate the change in operational performance of the Group. Underlying Results include earnings from Polarcold (full year) and Liqueo (up until sale). A reconciliation of Underlying to reported EBITDA and Net Profit is provided on page 15.*

Shelby

In December 2018, Scales acquired a controlling 60 per cent stake in Shelby Foods (Shelby), a large independent US buyer, processor and seller of ingredients for the petfood industry. The remaining 40 per cent stake continues to be held by Brett Frankel, the Founder and President of Shelby.

As outlined later, this is an important first step by Scales in further securing raw material supply and also introducing us to a new suite of ingredients buyers.

Shelby is one of the largest US-based independent buyers and processors of offal for the petfood industry, handling approximately 80,000 MT of petfood ingredients annually in 7 processing locations throughout America. With Meateor, this brings total petfood ingredient volumes handled by Scales' Food Ingredients division to over 107,000 MT, making it a significant independent, global petfood ingredients processor. Shelby's revenue in 2018 was around US$54 million (NZ$78 million).

The majority of Shelby's production uses pork and beef proteins, complementing Meateor's production of New Zealand lamb and venison products. Shelby and Meateor share a number of customers with Shelby sourcing raw material from America's largest meat companies. As a result, opportunities exist to extract synergies through the increased breadth of proteins, customer and supplier networks and know-how.

The transaction has a strong strategic rationale for our Food Ingredients division. We believe the petfood ingredients sector continues to be an attractive industry for investment for a number of reasons:

- The pet care industry is undergoing a positive growth trend as the world pet population continues to expand and the pet 'humanisation' trend deepens (source: Euromonitor).
- Globally, the petcare market was projected to reach sales of US$110 billion in 2017, having grown 3 per cent on average over the preceding 5 years (source: Euromonitor). Of this, it was estimated that around US$70 billion was spent in the United States and that growth in 2018 would be around 3.7 per cent (source: American Pet Products Association).
- China, third in the world for dog ownership, is also demonstrating strong growth. The China petfood market was valued at US$1.9 billion in 2017 and is expected to grow at a CAGR of 9.7 per cent for the next 5 years (source: Mordor Intelligence).
- Petfood ingredients provide broad exposure to this trend. Scales' objective is to be a key provider to a wide range of brand owners.

The purchase of Shelby accelerates the development of our petfood ingredients business and its growth strategy:

- It extends Meateor's source of supply and range of proteins offered.
- It provides opportunities to provide additional services to our customers.
- It allows Meateor to leverage Scales' existing experience with export markets, in particular China, where the market metrics for petfood growth are considerable and proteins available from offshore are highly sought after.

Overall, we are excited to partner with Shelby, a well-respected operation with excellent customer and supplier relationships.

> The Board would like to acknowledge and thank every member of the team for their efforts. Without them Scales would not be the organisation that it is.

Meateor New Zealand

Whilst not impacting our 2018 results, on 7 March 2019 we were excited to announce that Scales had entered into a 50/50 petfood joint venture with Alliance Group Limited (Alliance), a leading farmer co-operative and supplier of raw materials to the petfood sector. Meateor's New Zealand petfood business and operations will be transferred to a joint venture that will be run jointly between Scales and Alliance.

The joint venture brings together two of New Zealand's leading agribusinesses, allowing them to deliver their respective unique capabilities including a focus on health and safety, excellence in operating complex food plants and a global sales network.

We believe this transaction provides a number of benefits to the New Zealand petfood industry:

- It is an avenue for the industry to improve scale and participate in associated efficiencies.
- We expect improved relationships with customers by engaging with them on long term programmes.
- The joint venture expects to consider opportunities for added value growth in petfood (including petfoods that are more nutritious and functional), positioning New Zealand as the premier supplier of petfood proteins. The joint venture can leverage the combined resources of its partners to evaluate, test and progress growth opportunities.
- Customer and supplier networks should be extended.

We look forward to providing further information on this partnership throughout 2019.

Shareholder Returns

We continue to be mindful of the long term returns to our shareholders. Those shareholders who invested in our IPO in July 2014 have achieved a 242 per cent[7] return on funds invested to the end of February 2019. By comparison, an investment in the S&P NZX50 would have delivered an 80 per cent return on funds invested over the same period.

Scales' Team

Our results would not be possible without the diligence, persistence and attitude of all members of the Scales family.

This year has been a period of transition for some of our group companies - we said farewell to the Liqueo team and, assuming receipt of OIO approval, we will also say goodbye to our Polarcold team. We wish everyone well within their new organisations. However, we are excited to welcome the team from Shelby and very much look forward to working with them, as we are with our new joint venture partner, Alliance.

The Board would like to acknowledge and thank every member of the team for their efforts. Without them Scales would not be the organisation that it is.

Strategic and Operational Highlights

At the end of 2017 we refreshed our strategy to adopt a greater focus on pure-agribusiness. As a result, the 2018 year has proved to be a busy but exciting period in the Group's history:

- Significant progress was made against our Strategy Refresh with the sale of Liqueo, the conditional sale of Polarcold and the acquisition of a controlling interest in Shelby Foods.
- Substantial investment was made in new proprietary premium apple varieties.
- Continued progress was made in sustainability and governance ensuring that, in particular, our people and their safety are our highest priority.

[7] *Calculated as the percentage change between the closing share price on 28 February 2019 plus all net dividends paid (a total of $0.725 per share) and the IPO listing price of $1.60.*

Strategy

Scales' Vision

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

Scales' Long Term Goal

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

Our definition of agribusiness encompasses the following sectors

AGRICULTURE	FISHERIES/ AQUACULTURE
FORESTRY	VITICULTURE
HORTICULTURE	APICULTURE
INNOVATIVE PROCESSED FOOD	

Strategy Update

During 2018, we have focused on opportunities that play well to our strengths:

- Fully-vertically integrated.
- Export-led.
- Add value from our China relationships.
- Strong corporate brand and long term relationships with customers and suppliers.

Successful implementation of our refreshed strategy will ultimately result in a meaningful rebalance of our portfolio of businesses:

- Our storage businesses (Polarcold and Liqueo) have either been, or are expected to be, sold. These businesses were less aligned with our core strengths and generated returns that were below those of our other businesses.
- Our initial investment focus has been on our Food Ingredients division, with the objective of creating a business with the potential to generate EBITDA of $25 million. To date we have acquired a controlling interest in Shelby and, in 2019, entered into a partnership with Alliance, and continue to investigate a range of other projects.

We will continue to focus on opportunities that complement our strengths, seeking and investigating appropriate acquisitions and partnerships.

Appropriately Incentivising our Team

Whilst strategic input and governance is provided by the Board, the management team continues to be accountable for implementing those strategies. As a result, Scales has a strong incentive based remuneration scheme aligned to positive personal performance and to retaining and developing excellent team members over the long term.

The balance between shorter term incentives and long term business interests continues to be a key feature of the positive Scales business culture. The retention and continued development of the incentive based remuneration schemes are an important part of the Board and Managing Director's objectives. During 2018, the Board agreed to a number of enhancements to the existing Long Term Incentive Scheme (LTI Scheme). The current scheme was extended for a further 3 year period for all nominated executives and the Total Shareholder Return (TSR) gross hurdle rate was increased to 20.0 per cent. In addition, selected executives were provided with a new one-off opportunity to increase their participation in the LTI Scheme with additional shares being allocated over the next 3 year period.

Scales' remuneration philosophy, a breakdown of executive remuneration and the amendments made during 2018 is outlined in more detail in the Corporate Governance section.

Specific Strategic Targets

Division	Target	Status
Group	**Sustainability**	***Significant Progress***
	• Further develop and evolve our reporting and measuring of key sustainability aspects affecting Scales' businesses. • Develop best-in-class sustainability reporting. • Demonstrate improvements in sustainability.	Carbon footprint certification process commenced and waste audits completed. Inaugural group-wide staff engagement survey undertaken. Increased safety reporting.
	Financial and operational	***Significant Progress***
	• Maintain financial returns in line with, or above, industry returns. • Continue to seek acquisitive and organic growth to expand the business.	Excellent return achieved. Two divestments and one acquisition made, and a large number of opportunities reviewed.
	Shareholder returns	***On Track***
	• Continue to provide shareholders with an attractive yield on dividends. • Deliver capital gains and shareholder liquidity through careful strategic execution.	Interim dividend increased to 9.5 cents per share. Share price stable.
Horticulture	**Brand and Intellectual Property development**	***On Track***
	• Continue to develop the Mr Apple brand, particularly within our key markets of Asia and Middle East.	Continuing the development of sales collateral and marketing strategies.
	Volumes	***Excellent Progress***
	• Reach 4 million TCEs of our own grown apples.	3.87 million TCEs exported, up 9 per cent on 2017.
	Sales	***On Track***
	• Continue to increase market penetration into Asia through services company Primary Collaboration New Zealand (PCNZ) and strategic partner China Resources Ng Fung Limited (China Resources Ng Fung).	Continued development of branding and marketing specific to the Asia market.
	Plant Varieties	***Excellent Progress***
	• Acquire new Plant Variety Rights (PVRs) to meet emerging needs. • Redevelop lower-performing orchards and varieties into higher value crops.	Commercial sales of premium apples Dazzle™ and Posy™ imminent. Significant orchard development in new premium varieties.
Storage & Logistics	**Rebalance our portfolio of businesses**	***Excellent Progress***
	• Review investment in Storage & Logistics in line with Strategy Refresh.	Storage businesses (Polarcold and Liqueo) have either been, or are expected to be, sold.
	Expand logistics offerings	***Excellent Progress***
	• Develop scale to utilise the expertise and capacity within the team.	Increased throughput of volumes.
Food Ingredients	**Increase scale and expand offering**	***Excellent Progress***
	• Review strategic initiatives and consider organic and acquisition opportunities to increase divisional scale.	Acquisition of 60 per cent of Shelby completed. Joint venture with Alliance announced. Further opportunities being investigated.

Group Financials

Summary

We are pleased to present record Underlying revenue of $464.7 million and Underlying EBITDA of $67.1 million for the year ended 31 December 2018. This was a solid financial result supported by strong performances across all divisions and, once again, reflected the attention to detail and commitment to excellence within all teams.

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

Income Statement

	2018 $’000	2017 $’000 (Restated)
Underlying Revenue	464,707	393,093
Underlying EBITDA	**67,057**	**62,007**
Underlying EBIT	**52,274**	**47,758**
Underlying Net Profit	**35,814**	**32,730**
After tax impact of:		
Non-cash NZ IFRS adjustments	9,685	(1,113)
Net Profit	**45,499**	**31,617**
Capital employed	360,217	307,531
Return on capital employed	17%	17%

Directors and management use non-GAAP (Underlying) 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. Non-GAAP measures also represent some of the performance measures required by Scales’ debt providers. Underlying Results include earnings from Polarcold (full year) and Liqueo (up until sale).

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 next table shows how Underlying EBITDA and Underlying Net Profit reconcile to EBITDA and Net Profit (respectively) 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 Reported EBITDA and Net Profit to Underlying EBITDA and Net Profit

	2018 $'000	2017 $'000 (Restated)
Reported EBITDA	**51,744**	**45,305**
Change in fair value gain on apple inventory	256	40
Change in gross liability for Non-Controlling Interests	(146)	629
Share based payments	31	92
Equity settled employee benefits	849	389
Discontinued operations EBITDA	14,323	15,552
Underlying EBITDA	**67,057**	**62,007**
Reported Net Profit	**45,499**	**31,617**
Change in fair value gain on apple inventory	256	40
Change in gross liability for Non-Controlling Interests	(146)	629
Share based payments	31	92
Equity settled employee benefits	849	389
Taxation	(80)	(37)
Gain on disposal of Liqueo	(8,174)	-
Depreciation after transfer to disposal	(2,421)	-
Underlying Net Profit	**35,814**	**32,730**

Capital Management

ROCE and EBITDA margin continue to be important performance metrics for each division and the Group.

ROCE is a measure of how efficiently we are generating a return on our assets. It lies at the heart of how we monitor the performance of the portfolio 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.

Group capital employed increased by $52.7 million in 2018, principally due to:

- The acquisition of Shelby in December 2018, resulting in additional assets and goodwill.
- Capital expenditure including orchard redevelopment (see the Horticulture section for further details).
- Increases in inventory.

ROCE from all divisions were in excess of their long-run divisional targets and was maintained at 2017 levels at Group level, above our long-run objective rate.

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.

Our Group and divisional EBITDA margins remain strong, with a decrease in Group EBITDA margins mostly due to increased trade from lower margin activities of the Group.

Following the sale of Polarcold and Liqueo, the performance metrics for the renamed Logistics division will be reviewed.

Scales' Net Tangible Assets as at 31 December 2018 were $1.43 per share (31 December 2017: $1.43 per share)[8].

Scales' basic earnings per share for the year ended 31 December 2018 was 32.2 cents per share (22.5 cents per share in the year ended 31 December 2017). The increase was mainly due to the gain on sale of Liqueo.

[8] Based on the weighted average number of ordinary shares.

Capital Management

	2018	2017
ROCE		
Horticulture	21%	21%
Storage & Logistics[9]	16%	13%
Food Ingredients[10]	32%	37%
Group	**17%**	**17%**
Target	*15%*	*15%*
Underlying EBITDA margin		
Horticulture	17%	18%
Storage & Logistics	14%	15%
Food Ingredients	10%	10%
Group[11]	**14%**	**16%**

Financing

Average Net Debt[12] for the year was $70.7 million, $15.9 million above Average Net Debt during 2017 of $54.8 million. However, if the effect of debt funding for the Shelby transaction was excluded, average net debt for the year would have been $53.1m.

Hedging Strategy

As an exporter, we continue to have significant exposure to foreign exchange movements. This is most prevalent in Mr Apple, but our Food Ingredients and Storage & Logistics divisions are also affected.

In 2018, Mr Apple made approximately 57 per cent of its apple sales in US dollars, 33 per cent in Euros, 8 per cent in British pounds, and 1 per cent in Canadian dollars[13]. We continue to have a natural hedge covering some of our US dollar exposure as all international shipping is payable in US dollars. 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. We funded the US dollar investment in Shelby via a US dollar term loan to provide a hedge on the investment.

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, approximately 80 per cent of Mr Apple's expected net foreign exchange exposure is covered.

We also have interest rate swaps and forward rate agreements covering interest on our long term and short term borrowings.

Dividend

A final 2017 fully imputed cash dividend of 9.0 cents per share (a gross amount of 12.5 cents per share) was paid on 6 July 2018. Together with an interim dividend of 9.0 cents per share (a gross amount of 12.5 cents per share) that was paid on 19 January 2018, this brought the annual dividends for 2017 to a total of 18.0 cents per share (a gross amount of 25.0 cents per share).

A fully imputed interim 2018 cash dividend of 9.5 cents per share (a gross amount of 13.2 cents per share) was declared in December 2018 and paid on 18 January 2019. Our expectation is to declare a final fully imputed cash dividend in respect of 2018 in May 2019, for payment in July 2019. 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.

9 Storage & Logistics ROCE for 2018 is based on Scales Logistics and Polarcold. Liqueo has been excluded due to the nil balance of capital employed at year end.

10 Food Ingredients ROCE excludes Shelby.

11 Group EBITDA margin is based on Underlying EBITDA divided by Underlying Revenue (revenue from continuing and discontinued businesses).

12 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 2018 and 31 December 2018).

13 The balance was made in NZD.

Capital Expenditure

Operational capital expenditure in 2018 of $7.5 million was slightly higher than 2017, whilst $8.8 million was invested in growth projects in 2018, positioning us strategically for future earnings growth.

	2018 $'000	2017 $'000
Operational capital expenditure		
Horticulture	3,520	3,826
Storage & Logistics	3,287	3,330
Food Ingredients	518	211
Other	178	73
Total operational capital expenditure	**7,503**	**7,440**
Growth capital expenditure		
Horticulture	6,476	5,237
Storage & Logistics	2,347	802
Food Ingredients	-	-
Total growth capital expenditure	**8,823**	**6,039**
Total capital expenditure	**16,326**	**13,479**

Major investments during 2018 included:

- Redevelopment of orchards to premium apples such as Dazzle™ and Posy™.
- The relocation of Havelock plant and equipment to Longlands.
- Racking upgrades at Polarcold's Whakatu coldstore for improved FMCG storage, and racking at Scales Logistics.

Outlook

In summary, 2018 was a year when all businesses performed well and enjoyed favourable climatic and trading conditions. Although the businesses are exposed to seasonal variation, the 2019 apple harvest is underway within the Horticulture division with a positive outlook on packout rate, and the Storage & Logistics and Food Ingredients divisions are trading positively.

We believe the overall agribusiness environment remains positive, providing us with opportunities to continue to progress our Strategy Refresh. We are excited to integrate Shelby into the Scales Group as well as benefit from our partnership with Alliance and continue the redevelopment of our orchards.

We are indebted to all of our management and staff, fellow Directors, suppliers, customers and other stakeholders for their assistance and support in our 107th year of trading.

Tim Goodacre
Chair

Andy Borland
Managing Director

22 March 2019


Sustainability Report
Committed to sustainability

Our Sustainability Journey

Following our inaugural Sustainability Report in 2016 where we identified our materiality index, we progressed in 2017 to identifying our key Sustainability focus areas and, in 2018, we have begun measuring these areas and setting targets for reducing these impacts. Accurate measurement will enable us to determine our current position and will also enable us to assess our progress in achieving those reductions. We will revisit our materiality index later in 2019 to review its ongoing relevance.

In 2018 we focused on the following areas:

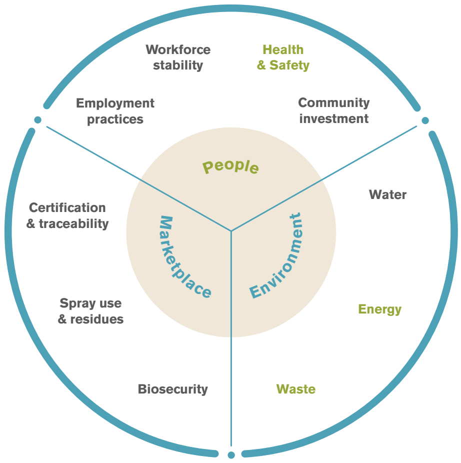
People – in particular, staff engagement and health and safety.

Energy – participation in CEMARS® (carbon footprint calculation) baseline.

Waste - in particular the amount of waste sent to landfill.

Due to its size, our primary focus was around the operations of the Horticulture division but the staff engagement survey was launched throughout the whole Scales group.

Sustainability framework - areas of focus



A Snapshot of Scales Group

~715 Permanent staff members

~40% Female senior leadership staff

~1,150 Recognised Seasonal Employer (RSE)

staff employed at the peak of the harvest season

~30% Permanent female staff Scales-wide

1,000+ Customers worldwide

50+ Sites in operation

Our People

Staff Engagement Survey

Our people remain the most important asset of our Group. For that reason, in August 2018, we partnered with AON to undertake our first Group-wide staff engagement survey (excluding Polarcold, which is subject to conditional sale). Undertaking such a survey is one of our steps to becoming an Employer of Choice and allowed us to understand what that means to our staff and where we are.

We were delighted to note that the survey highlighted many areas for celebration but, as expected from surveys of this type, also drew attention to a few areas of focus. In a number of cases, initiatives are already underway.

2018 employee engagement survey results

Areas of strength:

Diversity and inclusion.
Relationship with manager.
Work tasks.
Work / life balance.
Customer focus.

Areas for focus:

Talent and staffing.
Rewards and recognition.
Senior leadership (communication).
Decision making.

56% Overall Scales engagement score[14]

[14] *This compares to the Australia / New Zealand (ANZ) average of 59%. ANZ top quartile - 68%.*

85% response rate (405 people).

Even distribution between ages and male / female responses.

93% positive response to "In the past year I have always felt safe at work."

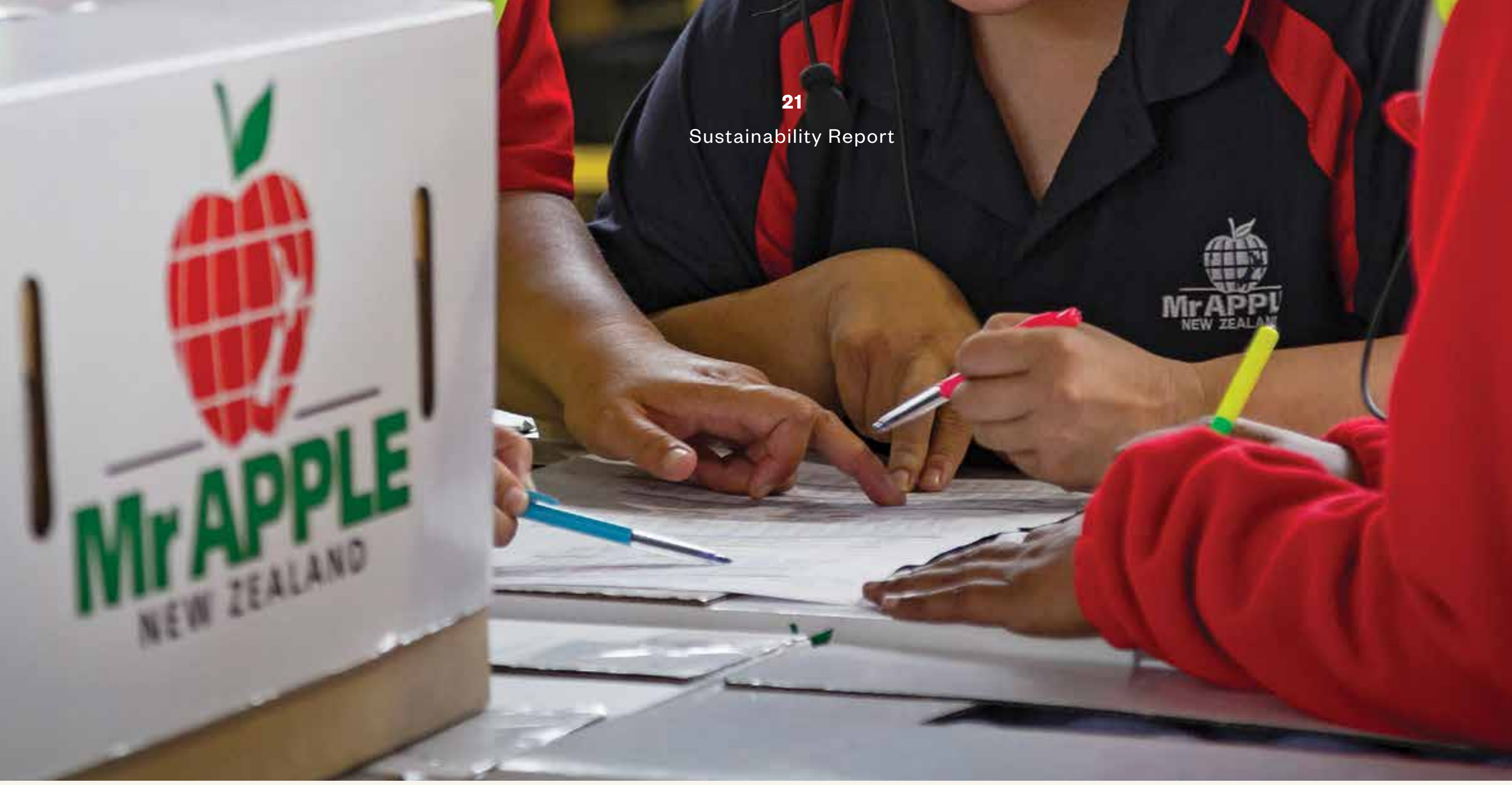
96% positive response to "I feel safety is an every day part of doing my job."

Highest engagement scores from the Mr Apple coolstore division and Scales Logistics.

Lowest engagement scores from Balance Cargo, the Mr Apple orchard division and at Meateor.

92% of staff positively answered that they get a sense of accomplishment from their work.

93% of staff positively stated that Scales is responsive to the changing needs of our external customers.



2018 employee engagement survey insights

Specific initiatives include:

Better structured communication plans for our in-house staff newsletters, focusing on the content quality and frequency of toolbox talks, introducing more formal CEO site-walks, undertaking leadership courses.

Introduction of a new bin card / orchard logistics package to dramatically reduce administration time, streamline harvesting operations and give better real-time information to our packhouses. This is part of the Smarter Orchard project launched in late 2017.

Team involvement at Balance Cargo in respect of a move of some of the operations, provision of more space and a better working environment.

Scales

AON Empower Results®

Engaging with our staff is of the utmost importance and we highly value their feedback. As a result, we hope to increase engagement through a wide range of initiatives.

Repeat this exercise at least every two years, although ideally more often.

Continue to work on culture and what it means to be part of the Scales family.

Listen to our team members, ask for their feedback and implement their ideas.

To never underestimate the power of feedback.

To focus on the areas that we can change, regardless of our environment.

To share ideas and innovations across the group to increase the collaboration.

To make our leadership teams more visible.

Continue to remain agile and able to adapt to ever-changing customer, consumer and global needs.

Continue to expand on our areas of strength.

To walk the talk.

To be more transparent in our decision making.

To celebrate our successes more openly.

Health and Safety

Safety Innovations and Investments

The review and control of our critical risks has been a high priority for us this year. We have had a particular focus on forklifts, traffic management, ammonia and fatigue and a number of successful initiatives included:

- Painting of truck grids at Mr Apple post-harvest sites to reinforce the 4m rule.

- Utilisation of a forklift trainer across the group with area and task specific competency training and assessments being used at all Mr Apple sites and at Balance Cargo. This has seen a dramatic change in behaviours and culture across these sites and is contributing to a reducing trend in forklift incidents. 2019 will see this training rolled out across the Meateor sites.

Tony Hughes.

- Use of a wireless operator and fleet management programme across the majority of our forklift fleet, which has helped to identify issues in the use and suitability of equipment and has reduced damages and incidents.

- An alignment of ammonia management to the published WorkSafe standards.
- Full attendance of the Board and CEO's at safety governance and leadership training, along with additional time learning about corporate ethics.
- A fatigue toolkit which helps supervisors identify and manage fatigue should it occur.
- The roll-out of cab tractors at Mr Apple, nearly completing the 3-year focus on upgrading all tractors on site to cabs.
- Increasing frequency of audits, including the development of a more appropriate health and safety management tool.
- New safety positions created at Meateor and Balance Cargo.

Safety Statistics

KPIs are in place throughout all our businesses, focusing on managing critical risks, safety improvements in reducing injuries and improving reporting. During 2018:

- There were only 2 notifiable injuries (2017: 4).
- A 5% increase in hours worked.
- 2.4 times more safety observations reported and an increase in near-miss reporting.
- The Lost Time Injury Frequency Rate (most often attributable to low-level sprains and strains associated with the manual operations in our orchards) was in line with previous years.
- There was a continued decline in ladder incidents due to missing steps or slipping.

Governance

Shortly after the end of our financial year, we were pleased to announce the appointment of Nadine Tunley and Lai Po Sing, Tomakin to our Board. Together with the appointment of Teresa Steele-Rika in August 2018 as our current Future Director, these appointments added depth and industry experience to our governance team.

Nadine was appointed as a Non-Executive Independent Director of Scales, effective from 26 February 2019. Nadine is currently CEO of Ngai Tahu owned, Oha Honey LP, which farms in excess of 35,000 bee hives nationwide. Nadine brings experience from a number of governance roles, including as the former Chair of NZ Apples & Pears.

In January 2019 the Board welcomed Tomakin as a Director of the Company. Tomakin replaces Weiyong Wang as China Resources Ng Fung's representative on the Board. He is a Director of China Resources Ng Fung. Tomakin is also the Vice President, Chief Financial Officer and Company Secretary of China Resources Enterprise, Limited.

We were pleased to appoint Teresa as our next Future Director in 2018, continuing our participation in the Institute of Directors' programme. Teresa is Head of Corporate Communications & Brand at Datamars Limited where she is responsible for global brand, product and marketing strategies as well as leading internal and external communications and supporting M&A activity. This is Scales' third appointment under the Institute of Directors' Future Directors programme following the previous appointments of Liz Muller and Jen Bunbury in 2016 and 2017 respectively.

Marketplace

We continue to be cognisant of the needs and requests of our customers and other external stakeholders. As a result:

- Security training is undertaken online and nearly 300 people regularly complete this. Specific attention has been turned towards email and online security awareness training.
- 100% of companies have an updated Business Continuity Plan, which is supported by the Scales-wide Crisis Management Plan.
- 100% of CEOs attending a crisis simulation training day demonstrating the effectiveness of the Crisis Management Plan.
- Over 370 third-party audits were conducted throughout the Group to maintain our certifications.
- In partnership with Plant & Food Research, 900,000 sterile codling moths were released over the Mr Apple orchards in Central Hawke's Bay in order to decrease the wild moth population to almost zero.

Scales continues to constantly evolve and we understand the importance of continually evaluating and adapting our processes and structures to best meet these changes. As a result, we are working towards the creation of a compliance hot-line to ensure that all practices that we, and our partners, engage in are in line with Scales' values.

Our Environment

Waste

During the year, we focused on identifying how our waste is generated, with the completion of waste audits across Mr Apple and Balance Cargo. Going forward our focus will be on reducing waste to landfill by:

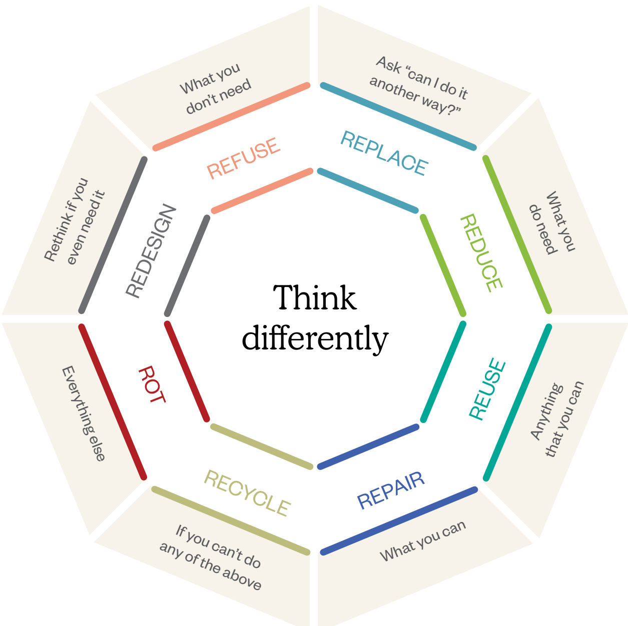
- Asking suppliers to reduce or remove unnecessary packaging.
- Identifying and utilising new avenues for recycling.
- Educating our staff on how to support us in achieving this goal.

Progress so far includes:

- Colour-coded "endless" bags introduced across the Mr Apple post-harvest sites.
- Saving over 400 reams (over 200,000 pieces) of paper at Mr Apple by reducing the number of reports and documents requiring printing in the packhouses.
- Saving 100,000 Styrofoam cups from landfill by changing to compostable cups within the Mr Apple staff areas.
- Reusing 32,250 kg of dairy slip sheets at Balance Cargo.

Other initiatives underway include:

- Printing double-sided.
- Returning or reusing pallets.
- Trialling liner-less labels.
- Composting food scraps.
- Researching compostable alternatives to hairnets and gloves.
- Increasing recycling facilities.
- Removing plastic knives and forks in canteens.
- Education via posters and TVs.



Contamination

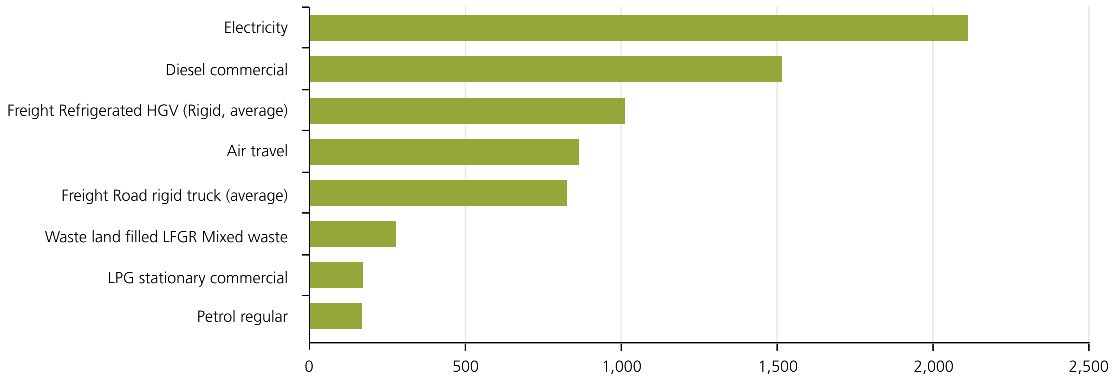
The Canterbury Regional Council (the Council) has laid charges against Polarcold in relation to discharges from its former Belfast operation in early April 2018, discharges which the Council states were not authorised by the correct resource consents. The Council also alleges that the discharges were the cause of the death of fish in the Kaputone Creek. At all times Polarcold has fully cooperated with the Council in its investigation. Polarcold has also engaged the appropriate experts to investigate the circumstances surrounding this incident so as to establish if there was any fault on Polarcold's part. These investigations are continuing and, in the meantime, Polarcold has initiated a full audit of all its operations to confirm that all appropriate authorisations and safeguards are in place.

Carbon Footprint

2018 saw the completion of the very first CEMARs® calculation for Mr Apple, with verification granted in February 2019 for the 2018 financial year.

- The overall carbon footprint for Mr Apple is 21,824.21 Tonnes of carbon dioxide equivalent (tCO_2e).
- This equates to total gross greenhouse gas (GHG) emissions per:
  - All staff (at peak season) of 9.92 tCO_2e.
  - Bins tipped of 0.81 tCO_2e.
  - Cartons exported of 0.0044 tCO_2e.
  - Hectares planted of 18.86 tCO_2e.
  - Permanent employees of 57.43 tCO_2e.
  - Revenue ($ millions) of 107.10 tCO_2e.

GHG Operational Emissions by Source



NB: The above graph shows areas over which we have direct control.

Our focus to reduce our emissions will be on those areas where we have direct control, as shown in the chart above. We have not shown the freight shipping element as it is currently not within our ability to change. Key projects for reduction were created in a company-wide workshop held in 2018 and these agreed projects will direct our way forward. Initiatives include:

- Establishing LED replacement timelines.
- Investigating alternatives to fossil fuel transport.
- Dramatically reducing the amount of paper we use.
- Dramatically reducing the waste to landfill by reducing the creation of the original waste and redirecting waste created via the correct recycling channels.
- Improved monitoring and managing of our electricity.
- Continuation of improved management of our refrigerants.


Divisional Overview

The inner workings

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

Horticulture

Overview

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

- Mr Apple (including Longview), New Zealand's largest fully vertically integrated apple business, based in Hawke's Bay.
- A 73 per cent stake in Fern Ridge, a fresh produce exporter in Hawke's Bay.

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

The division produced a strong result in 2018:

- Revenue of $254.6 million, 15 per cent higher than 2017.
- Underlying EBITDA of $42.6 million, 9 per cent higher than 2017.
- 5.83 million TCEs of apple sales, 4 per cent higher than 2017.
- A 7 per cent increase in weighted average FOB[15] apple prices.

Orchard Redevelopment

As noted in our 2017 annual report, the redevelopment of Mr Apple's orchards continues to be a major strategy for the division. With 1,160 hectares of our own planted orchards, Mr Apple is uniquely positioned to develop commercially relevant volumes of new, premium varieties, in particular those which Mr Apple own (either outright or in collaboration with our partners).

During the winter of 2018, 68 hectares were redeveloped, including the conversion of 50 hectares of established orchard. Of this total redevelopment, 41 hectares were in Dazzle™.

Further plantings of approximately 85 hectares (through the redevelopment of 70 hectares of Braeburn and lower performing orchard blocks) are anticipated to take place over the 2019 and 2020 winters.

Whilst total orchard production is likely to reduce in the near term as a result of this redevelopment, we anticipate volumes returning to current levels by 2023.

Apple Brands

The development of new and exciting apple brands continues to be a major focus for the Mr Apple team.

- Dazzle™, a new apple brand 20 years in the making, is specifically targeted at the Asia market with its high colour, sweet taste and big size. Mr Apple's first commercial sales of Dazzle™ will take place during 2019.
- Posy™ is a pinky red, sweet apple, which is harvested at the very beginning of the season, and is targeted at consumers in Asia. The first commercial sales of Posy™ are expected to take place in early to mid-2019.

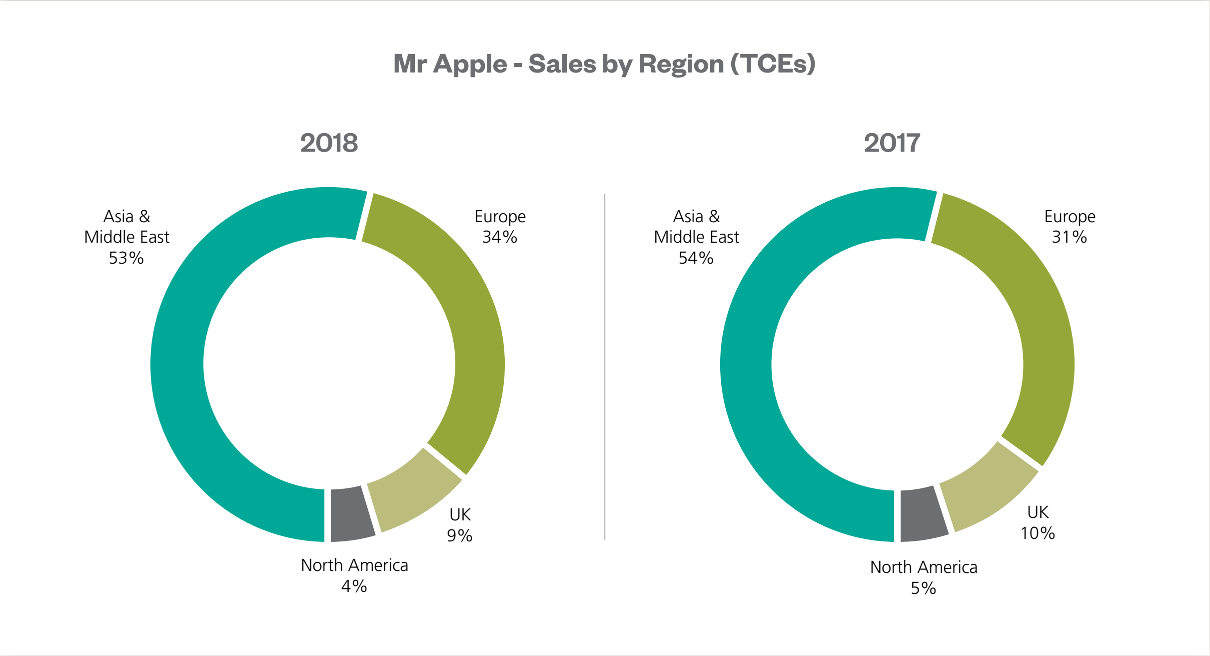
Currently, Mr Apple has approximately 50 hectares of trees producing Dazzle™ and 30 hectares of trees producing Posy™, with further planting anticipated as noted above. Further development of these and other new brands will continue to be a focus for the division in the future.

[15] *Free on Board – where the seller is responsible for transportation of the goods to the port of shipment and the cost of loading.*

Markets

New Zealand continues to hold a premium position in the world markets for apple production and export. The New Zealand apple industry was, for the fourth year running, named the most competitive on the global stage by The World Apple Review, against 33 major apple growing countries.

In 2018 the Horticulture division sold apples to more than 170 customers in over 40 countries.



Our relationships with China Resources Ng Fung and PCNZ continue to provide essential insight, support and access to the large Asia market, with sales to Asia and the Middle East continuing to account for over 50 per cent of export sales. Sales to Europe in 2018 also benefited from a decision to send fruit to this market early.

Developing a Market Focused Brand in Asia and China

While continuing to develop Asia, Mr Apple sees opportunities in creating a more consumer-centric brand in China. Mr Apple is uniquely positioned to fulfill this position by virtue of its size and being 100 per cent dedicated to apples. To build a consumer-centric brand, Mr Apple is implementing a range of marketing and branding strategies, including:

- Increasing market awareness through China social media, in-store promotions and exhibitions.
- Extending sales channels through e-commerce.
- Packaging innovation, specific to consumer needs.
- Working closely with partners on brand promotions.

Financial Performance and Key Operating Statistics

Summary Performance

The table below shows the financial performance of our Horticulture division for 2018 and 2017.

Horticulture Financial Performance

	2018 $'000	2017 $'000 (Restated)
Revenue	254,569	221,963
Underlying EBITDA		
Mr Apple	40,690	36,634
Fern Ridge	1,898	2,299
Underlying Horticulture EBITDA	**42,589**	**38,933**
Depreciation and amortisation	(8,387)	(7,840)
Underlying Horticulture EBIT	**34,202**	**31,093**
NZ IFRS impacts	877	(669)
Horticulture EBITDA	**43,466**	**38,263**
Horticulture EBIT	**35,079**	**30,423**
Capital employed	169,499	157,903
Return on capital employed	21%	21%

NB: The table above includes 100 per cent of the EBITDA contribution from Fern Ridge. Approximately 27 per cent of Fern Ridge is owned by minority shareholders. We record a minority interest of $0.4 million (2017: $0.4 million) in our group results reflecting their share of tax paid profit from Fern Ridge.

The Horticulture division generated record revenue of $255 million, up 15% on the prior year (2017: $222 million) and Underlying EBITDA of $42.6 million, an increase of 9% on the previous year (2017: $38.9 million). These increases resulted from a return to expected growing conditions compared to 2017, together with ongoing investment in the Middle East and Asia markets and strong demand from Europe, which delivered an overall growth in apple prices.

Non-cash NZ IFRS adjustments, before tax, in 2018 and 2017 relate to revaluation of foreign exchange contracts and fair value gains on unharvested agricultural produce.

Note that gains and losses on foreign exchange contracts closed out during the year are a normal part of our business and are included in the calculation of Underlying EBITDA.

Orchard Statistics

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

		2018	2017	2016	2015	2014
Orchard						
Total planted orchard (at time of harvest)*	Ha.	1,149	1,142	1,042	1,052	1,037
Fully mature equivalent planted orchard	Ha.	1,057	1,043	922	902	871
Apples picked (Mr Apple orchards)	TCE 000s	5,090	4,434	4,360	4,433	3,668
Apples packed (Mr Apple + external growers (Hawke's Bay))	TCE 000s	4,739	4,354	4,150	3,809	3,327
Exported volume						
Mr Apple	TCE 000s	3,867	3,545	3,546	3,155	2,752
External growers **	TCE 000s	1,964	2,078	1,187	1,019	1,218
Total	**TCE 000s**	**5,831**	**5,622**	**4,733**	**4,174**	**3,970**
Mr Apple packout %	%	76%	80%	81%	71%	75%
Total NZ production	TCE 000s	20,687	18,956	19,346	18,360	17,259
Mr Apple own grown volume share of NZ production	%	18.7%	18.7%	18.3%	17.2%	15.9%

**Planted orchard at the end of the year was 1,160 hectares.*

***External grower volumes in 2017 and 2018 include Fern Ridge Fresh.*

In summary:

- Around 590 million apples were picked from Mr Apple's planted apple orchards, a new record for the company.
- This equated to a gross production of 5.09 million TCEs (on average there were 116 apples in a TCE) from which 3.87 million TCEs were exported.
- Together with our external growers, the division sold 5.83 million TCEs, up 4 per cent on 2017.
- Production from our owned and leased orchards continued to be significant to the national apple crop, continuing to account for 18.7 per cent of the national crop (2017: 18.7 per cent).

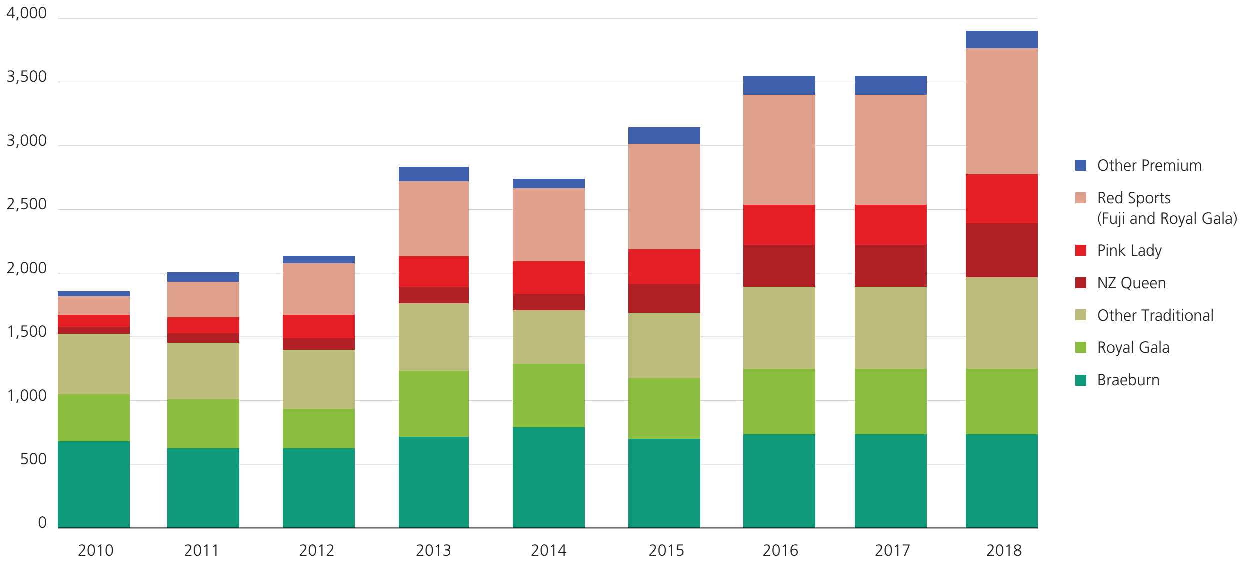
Volumes and Prices

Volumes and prices (on a NZD FOB basis) for 2018 and 2017 are noted below.

Varietal Performance - Mr Apple Volumes

Volumes by Variety (TCE 000s)	2018	2017
Premium Varieties		
NZ Queen	457	406
Pink Lady	359	253
Red Sports (Fuji and Royal Gala)	959	809
Other	126	148
Total	**1,901**	**1,616**
Growth	18%	(2%)
% premium	49%	46%
Traditional Varieties		
Braeburn	742	758
Royal Gala	557	567
Other	667	604
Total	**1,966**	**1,928**
Growth	2%	2%
Total Mr Apple owned and leased orchards	**3,867**	**3,545**
Growth	9%	(0%)
Prices by Variety (NZD / TCE (FOB))		
Weighted average price for premium varieties	38.8	36.8
Weighted average price for traditional varieties	32.7	30.8
Total weighted average price	35.7	33.5

We were pleased to achieve improved pricing for both our premium and traditional apple varieties in 2018 compared to 2017. Our weighted average FOB price was up 7 per cent on 2017 reflecting a change in mix, with premium varieties accounting for nearly 50 per cent of all sales, together with minor favourable movements in foreign exchange rates. We are confident that the strategy to redevelop our orchards will continue to deliver improvements in pricing, particularly in respect of premium varieties, in future periods.



Volume growth in 2018 was concentrated within the sale of premium varieties, which collectively recorded an increase of 18 per cent over 2017 export volumes to 1.90 million TCEs. Growth was strong across most varieties reflecting our strategy to focus on varieties that appeal to the Asia market. Traditional varieties also increased by 2 per cent, from 1.93 million TCEs to 1.97 million TCEs, notwithstanding the redevelopment of our traditional orchards.

Exchange Rates

Weighted average exchange rates for 2018 and 2017 are summarised in the table below.

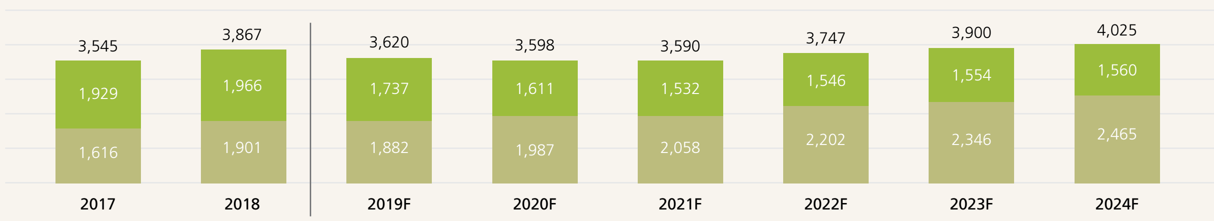
	2018	2017
NZD:USD	0.69	0.69
NZD:EUR	0.58	0.60
NZD:GBP	0.48	0.46
NZD:CAD	0.86	0.88

Whilst there were minor movements in exchange rates compared to 2017, our overall foreign exchange position in 2018 provided a net benefit. As previously stated, we have a natural hedge for some US dollar exposure and combine this with formal hedge contracts for the remaining US dollar and other foreign currency exposure. It is our policy to manage foreign exchange exposure and minimise the impact of any volatility in spot rates.

We note that foreign exchange spot rates may present a headwind for the business post-2019 should the current exchange rates prevail.

2019 Outlook

As previously noted, as a result of our replanting strategy, Mr Apple's total orchard production is likely to reduce temporarily in the near term with volumes forecast to return to current levels by 2023. However, our expectation is that we will return to long-run average packout rates over this period and we expect these to be accompanied by an increase in average pricing, assuming positive market conditions are maintained.



NB: Volumes from 2019 onwards are forecast, actual results may differ from forecast.

We are also excited to continue our focus of investing in the Mr Apple brand. This will ensure our product is clearly differentiated in the market as a premium-quality product, allowing us to maximise returns year-on-year.


spectrim
spectrim


Mr APPLE
NEW ZEALAND
Every apple...our best apple.™
Mr APPLE
NEW ZEALAND
Every apple...our best apple.™


Mr APPLE


Every apple...our best apple.™

Storage & Logistics

Overview and Divisional Developments

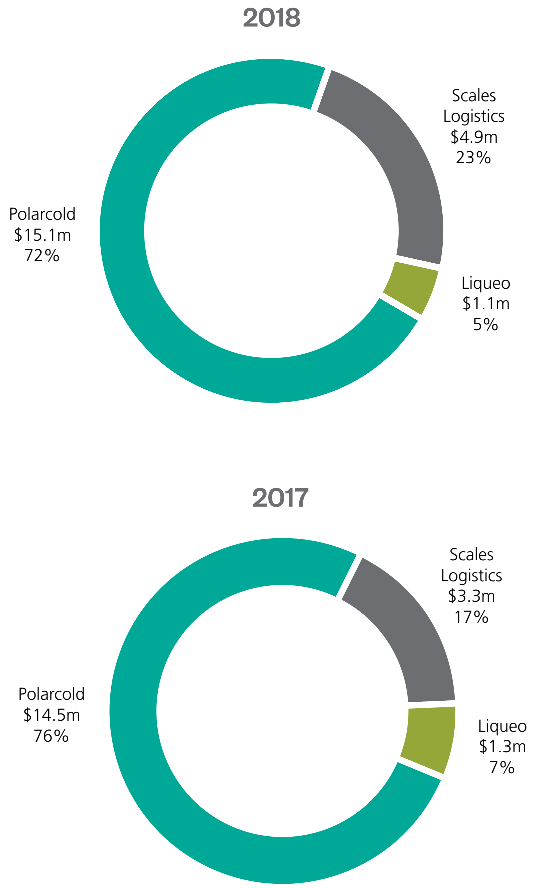
Our Storage & Logistics division changed significantly during the year as a result of:

- The sale of Liqueo, our bulk liquid storage business, in August 2018.
- The conditional sale of Polarcold, our controlled temperature storage and warehousing business, in May 2018, which remains subject to OIO approval.

The deadline for satisfaction of the OIO condition has been extended to 31 May 2019 and, assuming this is granted, our Storage & Logistics division will be renamed the "Logistics" division and will comprise:

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

Divisional Components of EBITDA



NB: EBITDA for Polarcold is Underlying EBITDA. 2018 Liqueo EBITDA is for the part year from 1 January 2018 to 13 August 2018 (being the date of settlement of the sale of Liqueo).

Financial Performance

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

Storage & Logistics

		2018	2017
Key Operational Metrics			
Polarcold			
Total available refrigerated coldstore space (at end of year)	m^3 000s	722.1	775.1
Scales Logistics			
TEUs shipped	TEUs	35,210	29,481
Airfreight tonnes managed	MT	9,251	6,217
Financial Performance		**$'000**	**$'000 (Restated)**
Underlying Revenue		153,169	125,998
Underlying EBITDA			
Polarcold		15,142	14,495
Scales Logistics		4,882	3,295
Liqueo		1,093	1,335
Underlying Storage & Logistics EBITDA		**21,117**	**19,125**
Depreciation and amortisation		(5,776)	(5,824)
Underlying Storage & Logistics EBIT		**15,341**	**13,301**
NZ IFRS impacts		(16,215)	(15,552)
Logistics EBITDA		**4,902**	**3,573**
Logistics EBIT		**4,665**	**3,419**
Capital employed		91,838	91,240
Return on capital employed		16%	13%

NB: Capital Employed and ROCE for 2018 is based on Scales Logistics and Polarcold. Liqueo has been excluded due to the Nil balance of capital employed at year end.

The Storage & Logistics division experienced strong growth in 2018 with Underlying EBITDA of $21.1 million, an increase of 10 per cent on 2017 Underlying EBITDA of $19.1 million:

- There was a solid performance from Polarcold, which recognised a 4 per cent increase in Underlying EBITDA.
- Scales Logistics delivered a standout performance with a 48 per cent increase in EBITDA. The equivalent of 35,210 TEUs of ocean freight were shipped during the year, up 19 per cent on 2017, and 9,251 tonnes of airfreight was handled, up 49 per cent on the prior year.
- Liqueo also performed well in the period up until its sale in August 2018.

2019 Outlook

The year has stated positively for the Storage & Logistics division. Polarcold is operating close to capacity with benefits being obtained from the recently installed racking system. Scales Logistics has also experienced a positive start, with activity expected to remain at 2018 levels.

Following the divestment activity in 2018, Scales is committed to further opportunities for growth, both organic and through acquisition, for this division in 2019.

Food Ingredients

Overview

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

- Meateor New Zealand – a processor and marketer of pet food ingredients for the global pet food industry with processing plants in Whakatu and Dunedin. In March 2019, Scales announced that Alliance had acquired a 50 per cent interest in Meateor's New Zealand business.
- Meateor Australia – a marketer of petfood ingredients.
- Shelby – a 60 per cent ownership of a US procurer, processor and marketer of ingredients for the petfood industry, purchased in December 2018.
- Profruit – a 50 per cent owned manufacturer of high quality apple, kiwifruit and pear juice concentrates, located in Hawke's Bay.

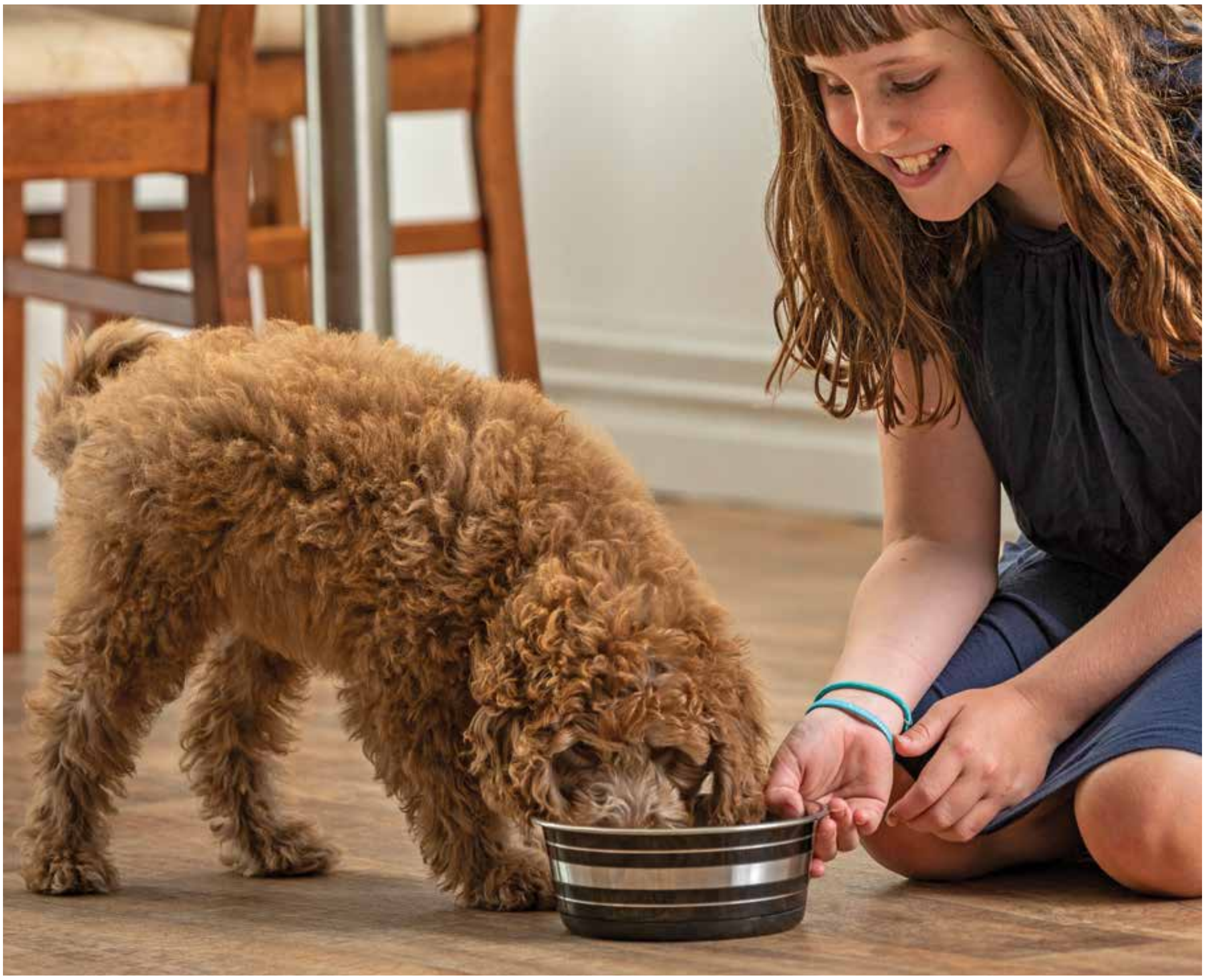
This division is proving to present a number of exciting developments and opportunities.

Divisional Developments

The most significant development within this division was the acquisition of a controlling interest in Shelby, which adds 80,000 MT of petfood ingredient sales to the Group. This will increase the breadth and geographical diversity of proteins that we source as well as improving the strategic positioning of Meateor with its customers.

Notwithstanding the acquisition of Shelby, there was pleasing growth in both revenues and profitability within the Food Ingredients division. Excluding volumes contributed by Shelby, Meateor's volume of petfood sold in 2018 increased 5 percent on 2017 to 29,028 MT (2017: 27,663 MT).

Profruit sales volumes increased by 10 percent to 6.2 million litres of juice concentrate (2017: 5.6 million litres), reflecting the return to more normal apple growing and cropping conditions.



Financial Performance

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

Food Ingredients

		2018	2017
Key Operational Metrics			
Meateor	MT	29,028	27,663
Profruit	litres 000s	6,219	5,579
Financial Performance		**$'000**	**$'000 (Restated)**
Meateor revenue		83,054	68,855
Underlying Food Ingredients EBITDA		**10,225**	**8,041**
Depreciation and amortisation		(582)	(532)
Underlying Food Ingredients EBIT		**9,643**	**7,509**
NZ IFRS impacts		796	-
Food Ingredients EBITDA		**11,021**	**8,041**
Food Ingredients EBIT		**10,439**	**7,509**
Capital Employed		35,324	23,137
Return on capital employed		32%	37%

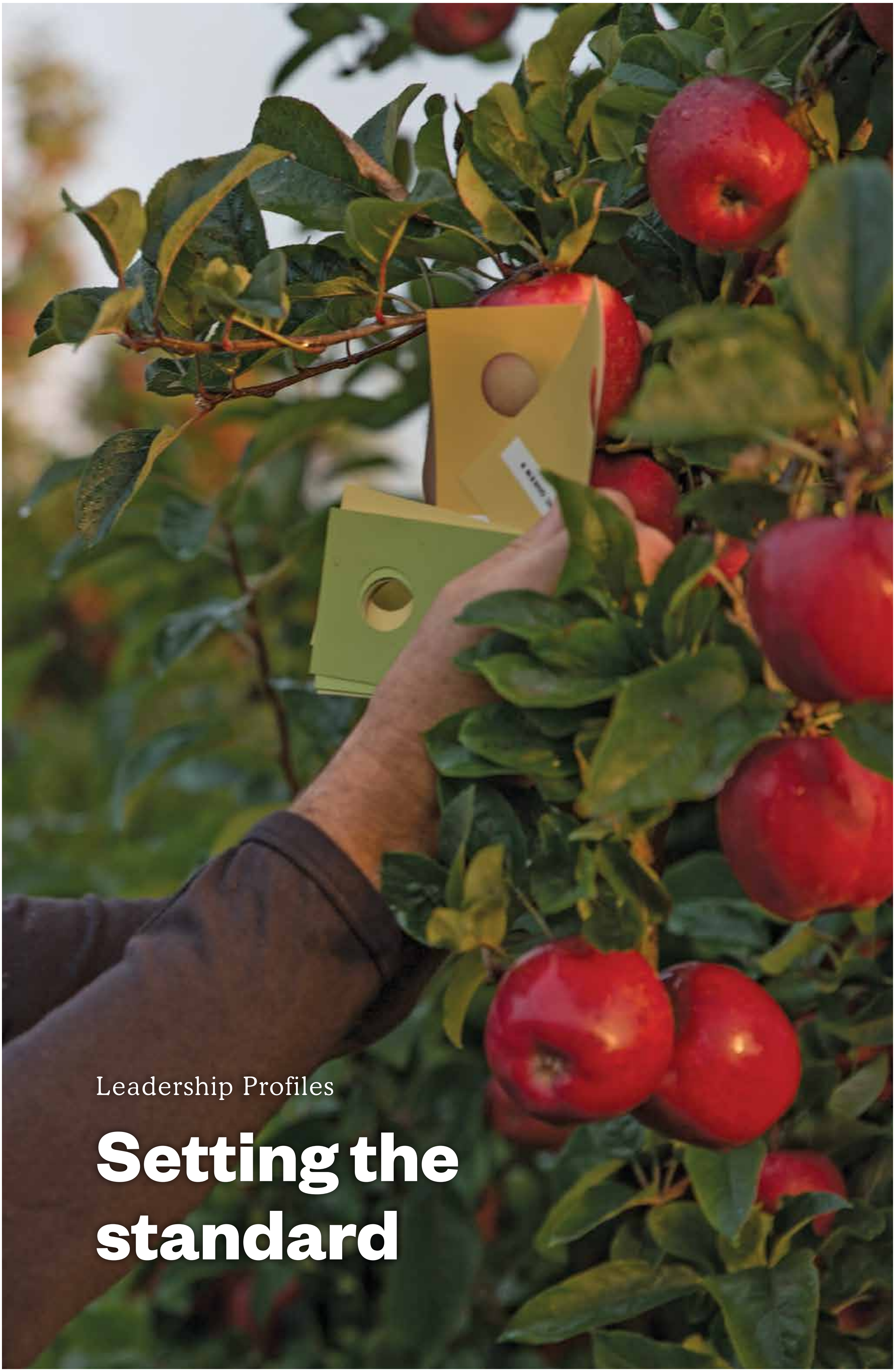
NB: Capital employed and ROCE exclude Shelby.

Food Ingredients delivered a record profit in 2018, achieving Underlying EBITDA of $10.2 million for the first time. This was an increase of 27 per cent on 2017 Underlying EBITDA of $8.0 million. Strong revenue growth was matched by profit improvement, as Meateor achieved increases in sales volume coupled with improved sale prices and margins.

Profruit delivered an excellent result, with our share of earnings being $1.7 million, an increase of 24 per cent on 2017 (2017: $1.4 million).

2019 Outlook

The outlook for the Food Ingredients division is extremely positive with the significant developments of 2018 and early 2019 positioning the division towards achieving its long-run earnings objectives. We expect 2019 volumes to be significantly higher with the inclusion of Shelby sales, the impact of our JV with Alliance, and with demand expected to remain firm.



Leadership Profiles

Setting the standard

Board of Directors (as at 22 March 2019)

Tim was elected to the Board in 2014, having been appointed Chair of Scales' Horticulture division in 2012. He has been involved in agribusiness for nearly 40 years and was CEO of Zespri International from 2003 to 2007. Tim is currently: Chair of The Nutritious Kiwifruit Company Limited, which is a consortium of New Zealand kiwi fruit suppliers selling under a new single brand, based around nutrition and health, on the Australian market; Director of Prevar Limited, an Australian and New Zealand joint venture apple and pear industry company, supporting the development and commercialisation of new apple and pear varieties; Director of Nagambie Healthcare, a community hospital and aged care facility, based in regional Victoria, Australia; President of Nagambie Lakes Tourism and Commerce Incorporated; and Director of Featherston Resources Limited. Tim is a member of Scales' Nominations and Remuneration Committee.

Andy joined Scales in 2007 and became Managing Director in 2011. Prior to joining Scales he had a 20 year career in banking, with his final role being Head of Corporate at Westpac New Zealand. Andy has overall responsibility for the strategic direction and day-to-day management of Scales. In addition to his directorships of the Group, Andy is currently the Chair of Akaroa Salmon Limited, Primary Collaboration New Zealand Limited and Primary Collaboration New Zealand (Shanghai) Co. Limited, and is a Director of apple and pear industry body New Zealand Apples & Pears, George H Investments Limited, Rabobank New Zealand Limited, Rabobank Australia Limited and Rabo Australia Limited. Andy is a member of Scales' Finance and Treasury Committee and Scales' Health and Safety Committee.

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

Mark was elected to the Board in 2011. He is a founding partner of Direct Capital. Mark has a background in private equity, specialising in portfolio management with a focus on strategy, growth and capital funding. Mark is currently a Director of a number of Direct Capital entities and portfolio companies including George H Investments Limited. Mark is also: Director of dual listed (NZX and ASX) New Zealand King Salmon Investments Limited; and Director of investment company, Evergreen Partners Limited. Mark is Chair of Scales' Nominations and Remuneration Committee, Scales' Finance and Treasury Committee and is a member of Scales' Audit and Risk Management Committee.

Board of Directors (continued)

Alan was elected to the Board in 2014. Alan was the President of the International Cricket Council between 2012 and 2014 and is currently; Chair of McGrathNicol and Partners NZ and the Basin Reserve Trust; a Director of Oceania Healthcare (NZ) Limited, Skellerup Holdings Limited and a number of private companies. Alan has an extensive background in the accounting and finance field and is a former National Chair of KPMG. He was made a Companion of the New Zealand Order of Merit (CNZM) in 2013 for services to cricket and business. Alan is Chair of Scales' Audit and Risk Management Committee.

Tomakin was appointed to the Board on 28 January 2019. He is a Director of China Resources Ng Fung Limited, which holds a 15.24% shareholding in the Company, and is also the Vice President, Chief Financial Officer and Company Secretary of China Resources Enterprise, Limited. Tomakin joined the China Resources Group in 2008, and holds both a Business Administration degree from the Chinese University of Hong Kong, and a Master of Business Administration degree from the University of Manchester. He has extensive experience in internal and external auditing, finance and accounting, regulatory and compliance, and as a company secretary.

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

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.

Hamish Davis, Managing Director Fern Ridge

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

Stephen Foote, CEO Polarcold

Stephen has been with the Polarcold group of companies in various management roles for 25 years. Prior to that, Stephen worked for Dominion Breweries and had interests in orcharding in Hawke's Bay.

Brett Frankel, President Shelby Foods

Brett established United States based Shelby Foods in 2007, and has been its President since inception. Brett has over 20 years experience in petfood, having had a senior procurement role prior to starting Shelby. He also represents the 3rd generation of family involvement in the sector, following in the footsteps of both his father and grandfather.

Steve Kennelly, Chief Financial Officer

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

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

Karen was appointed to this new Group role during 2017. Prior to that Karen was the Health & Safety and Compliance Manager for Mr Apple, where she has worked for 14 years.

Kent Ritchie, CEO Scales Logistics

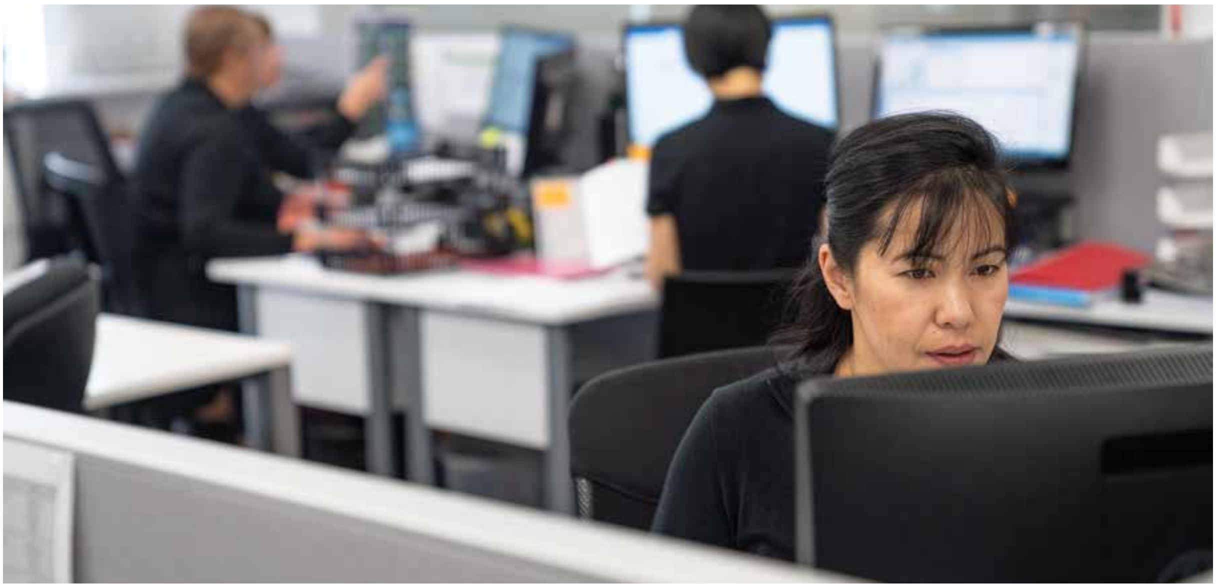
Kent joined Scales in 1998, and has spent over 30 years in the shipping industry. He has been involved in setting up shipping services from New Zealand, has experience in all aspects of the transport industry and has led Scales' expansion into the logistics arena.

John Sainsbury, CEO Meateor

John has been with Meateor in various management roles for the last 18 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.

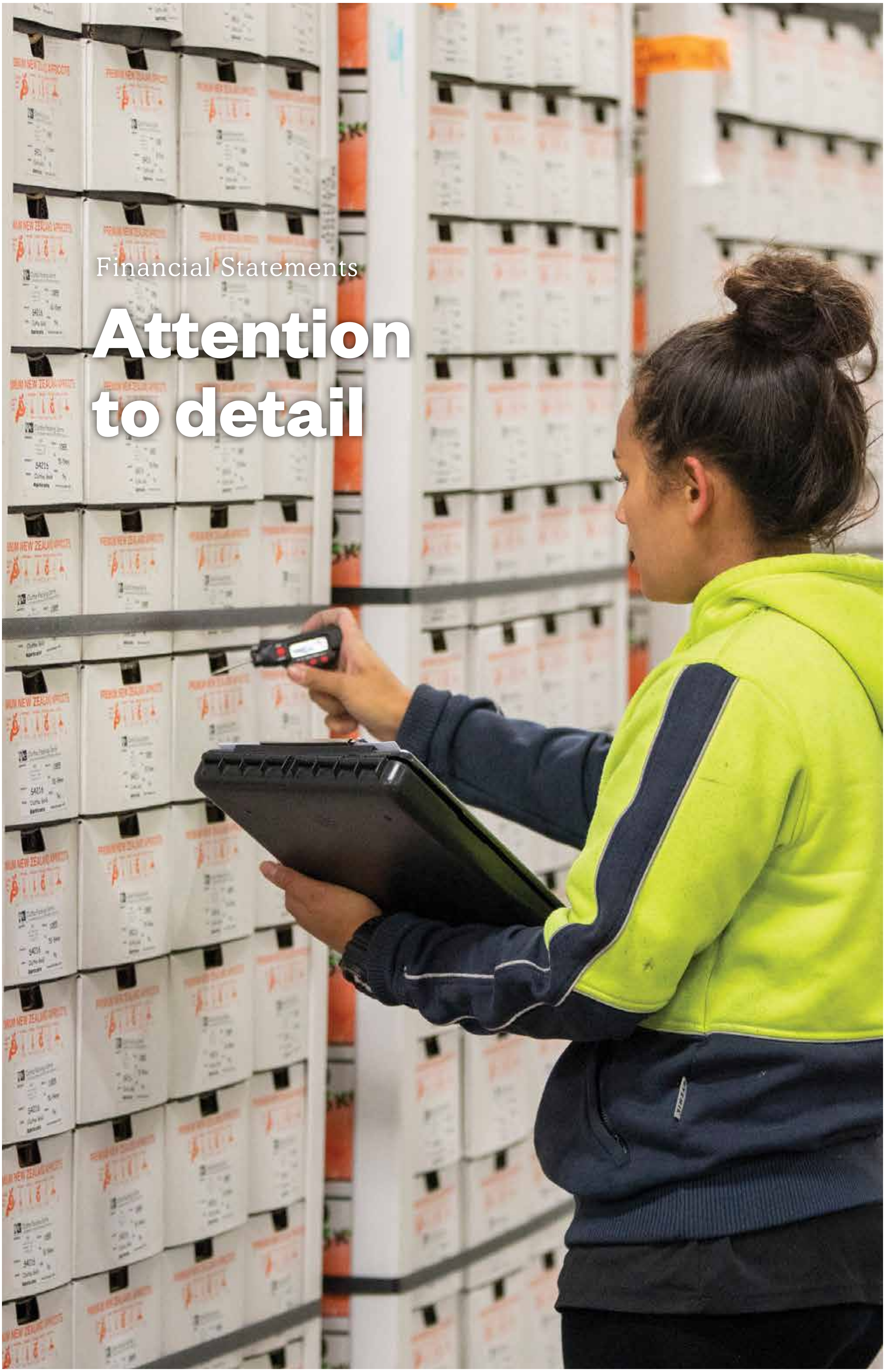
Andrew van Workum, CEO Mr Apple

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



Financial Statements

Attention to detail



Contents

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	NOTE	2018 $'000	2017 $'000 (Restated)*
Continuing operations			
Revenue	B1	402,542	335,531
Cost of sales	B2	(312,228)	(256,682)
		90,314	**78,849**
Share of profit of entity accounted for using the equity method	C3	1,706	1,376
Other income	B3	236	1
Administration and operating expenses	B2	(40,512)	(34,286)
Other losses	B3	-	(635)
EBITDA		**51,744**	**45,305**
Amortisation		(534)	(295)
Depreciation	C1	(8,713)	(8,284)
EBIT		**42,497**	**36,726**
Finance revenue		265	155
Finance cost	B4	(2,695)	(3,039)
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		**40,067**	**33,842**
Income tax expense	B5	(11,044)	(9,277)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**29,023**	**24,565**
Profit from discontinued operations net of tax	F3	16,476	7,052
PROFIT FOR THE YEAR		**45,499**	**31,617**
Profit for the year from continuing operations is attributable to:			
Equity holders of the Company		28,608	24,124
Non-controlling Interests		415	441
		29,023	**24,565**
Profit for the year from discontinued operations is fully attributable to equity holders of the Company.			
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Basic earnings per share (cents):			
Continuing operations	D5	20.5	17.4
Discontinued operations	D5	11.8	5.1
Total	D5	32.2	22.5
Diluted earnings per share (cents):			
Continuing operations	D5	20.4	17.3
Discontinued operations	D5	11.7	5.1
Total	D5	32.1	22.4

** The restatements to comparative period are explained in Section H.*

The notes to the financial statements on pages 50 to 80 form part of and should be read in conjunction with this statement.

Consolidated Statement of Comprehensive Income (continued)
for the year ended 31 December 2018

	NOTE	2018 $'000	2017 $'000 (Restated)*
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Loss on cash flow hedges		(6,775)	(6,163)
Income tax relating to cash flow hedges		1,897	1,726
Foreign exchange gain on translating foreign operations		49	-
		(4,829)	**(4,437)**
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		9,762	4,200
Income tax relating to buildings		(175)	(588)
Revaluation of apple trees		(466)	-
Income tax relating to apple trees		131	-
		9,252	**3,612**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	D2	**4,423**	**(825)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**49,922**	**30,792**
Total comprehensive income for the year attributable to:			
Equity holders of the Company		49,507	30,351
Non-controlling Interests		415	441
		49,922	**30,792**

** The restatements to comparative period are explained in Section H.*

The notes to the financial statements on pages 50 to 80 form part of and should be read in conjunction with this statement.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	NOTE	Share Capital $'000	Reserves $'000	Retained Earnings $'000	Attributable to Owners of the Company $'000	Non-controlling Interests $'000	Total $'000
Balance at 1 January 2017 (Restated)*		**89,748**	**67,785**	**56,651**	**214,184**	**406**	**214,590**
Profit for the year		-	-	31,176	31,176	441	31,617
Other comprehensive loss for the year		-	(825)	-	(825)	-	(825)
Total comprehensive (loss) income for the year		-	(825)	31,176	30,351	441	30,792
Shares issued	D1	970	-	-	970	-	970
Recognition of share-based payments	D2	-	389	-	389	-	389
Shares sold	D1, D2	179	-	-	179	-	179
Shares fully vested	D1, D2	2,853	(462)	(591)	1,800	-	1,800
Dividends	D3	-	-	(26,397)	(26,397)	(406)	(26,803)
Balance at 31 December 2017 (Restated)*		**93,750**	**66,887**	**60,839**	**221,476**	**441**	**221,917**
Profit for the year		-	-	45,084	45,084	415	45,499
Other comprehensive income for the year		-	4,423	-	4,423	-	4,423
Total comprehensive income for the year		-	4,423	45,084	49,507	415	49,922
Business acquisition		-	-	-	-	3,165	3,165
Transfer to retained earnings	D2	-	(129)	129	-	-	-
Recognition of share-based payments	D2	-	849	-	849	-	849
Shares sold	D1, D2	109	-	-	109	-	109
Shares fully vested	D1, D2	325	(31)	(46)	248	-	248
Dividends	D3	-	-	(25,897)	(25,897)	(440)	(26,337)
Balance at 31 December 2018		**94,184**	**71,999**	**80,109**	**246,292**	**3,581**	**249,873**

** The restatements to comparative period are explained in Section H.*

The notes to the financial statements on pages 50 to 80 form part of and should be read in conjunction with this statement.

Consolidated Statement of Financial Position
as at 31 December 2018

	NOTE	2018 $'000	2017 $'000 (Restated)*
EQUITY			
Share capital	D1	94,184	93,750
Reserves	D2	71,999	66,887
Retained earnings	D2	80,109	60,839
Equity attributable to Scales Corporation Limited shareholders		**246,292**	**221,476**
Equity attributable to Non-controlling Interests		3,581	441
TOTAL EQUITY		**249,873**	**221,917**
CURRENT ASSETS			
Cash and bank balances		2,790	5,690
Trade and other receivables	E1	22,910	23,437
Other financial assets	E2	3,921	6,415
Unharvested agricultural produce	C2	20,547	20,189
Inventories	C5	45,442	22,212
Prepayments		3,391	3,423
		99,001	**81,366**
Assets held for sale	F3	104,378	-
TOTAL CURRENT ASSETS		**203,379**	**81,366**
NON-CURRENT ASSETS			
Property, plant and equipment	C1	150,586	228,881
Investments accounted for using the equity method	C3	5,213	4,507
Goodwill	C4	43,875	18,177
Other financial assets	E2	6,903	7,764
Computer software		1,131	1,811
TOTAL NON-CURRENT ASSETS		**207,708**	**261,140**
TOTAL ASSETS		**411,087**	**342,506**
CURRENT LIABILITIES			
Bank overdrafts		3,749	-
Trade and other payables	E3	27,282	22,215
Dividend declared	D3	13,299	12,586
Borrowings	E4	3,329	6,500
Current tax liabilities		845	2,739
Other financial liabilities	E5	5,663	4,331
		54,167	**48,371**
Liabilities associated with assets held for sale	F3	19,281	-
TOTAL CURRENT LIABILITIES		**73,448**	**48,371**
NON-CURRENT LIABILITIES			
Borrowings	E4	64,664	40,000
Deferred tax liabilities	B5	15,588	28,175
Other financial liabilities	E5	7,514	4,043
TOTAL NON-CURRENT LIABILITIES		**87,766**	**72,218**
TOTAL LIABILITIES		**161,214**	**120,589**
NET ASSETS		**249,873**	**221,917**

** The restatements to comparative period are explained in Section H.*

The notes to the financial statements on pages 50 to 80 form part of and should be read in conjunction with this statement.

Consolidated Statement of Cash Flows
for the year ended 31 December 2018

	NOTE	2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		460,458	393,145
Dividends received		1,019	1,018
Interest received		280	175
		461,757	**394,338**
Cash was disbursed to:			
Payments to suppliers and employees		(409,843)	(345,660)
Interest paid		(2,695)	(3,039)
Income tax paid		(12,652)	(13,271)
		(425,190)	**(361,970)**
NET CASH GENERATED BY OPERATING ACTIVITIES		**36,567**	**32,368**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of Liqueo Bulk Storage Limited net of cash in Liqueo		20,323	-
Advances repaid		487	866
Sale of property, plant and equipment and computer software		120	147
		20,930	**1,013**
Cash was applied to:			
Net cash outflow on acquisition of businesses	F2	(35,269)	(978)
Purchase of computer software		(827)	(1,654)
Purchase of financial instruments		(932)	(5)
Purchase of property, plant and equipment		(15,589)	(11,826)
		(52,617)	**(14,463)**
NET CASH USED IN INVESTING ACTIVITIES		**(31,687)**	**(13,450)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from term facility borrowings		33,945	10,000
Proceeds from seasonal facility borrowings		67,500	52,500
Proceeds from related party borrowings		1,329	-
Treasury stock sold		109	179
		102,883	**62,679**
Cash was applied to:			
Repayments of term facility borrowings		(10,000)	-
Repayments of seasonal facility borrowings		(72,000)	(57,000)
Dividends paid		(25,184)	(24,856)
Dividends paid to non-controlling interests		(440)	(406)
		(107,624)	**(82,262)**
NET CASH USED IN FINANCING ACTIVITIES		**(4,741)**	**(19,583)**
NET INCREASE (DECREASE) IN NET CASH		**139**	**(665)**
Net foreign exchange difference		(59)	-
Cash and cash equivalents at the beginning of the year		5,690	6,355
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**5,770**	**5,690**
Represented by:			
Cash and bank balances		2,790	5,690
Bank overdrafts		(3,749)	-
Cash and bank balances attributable to discontinued operations	F3	6,729	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**5,770**	**5,690**

The notes to the financial statements on pages 50 to 80 form part of and should be read in conjunction with this statement.

Consolidated Statement of Cash Flows (continued)

for the year ended 31 December 2018

	2018 $'000	2017 $'000 (Restated)
NET CASH GENERATED BY OPERATING ACTIVITIES		
Reconciliation of profit for the year to net cash generated by operating activities:		
Profit for the year	45,499	31,617
Non-cash items:		
Amortisation	643	588
Deferred tax	1,306	1,126
Depreciation	10,779	13,661
Share of equity accounted results	(1,706)	(1,376)
Share-based payments	983	523
Change in gross liability on put options	(147)	628
Gain on disposal of Liqueo	(8,174)	-
Items classified as investing and financing activities:		
Working capital amounts included in acquisition of businesses	8,180	(54)
Dividends received from equity accounted entity	1,000	1,000
Gain on disposal of property, plant and equipment	127	36
Changes in net assets and liabilities:		
Trade and other receivables	(8,599)	(5,908)
Unharvested agricultural produce	(358)	(1,756)
Inventories	(23,345)	(5,847)
Prepayments	(302)	232
Trade and other payables	9,733	168
Current tax	948	(2,270)
NET CASH GENERATED BY OPERATING ACTIVITIES	**36,567**	**32,368**

Statement of Cash Flows

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

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

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

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

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

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 26 February 2019.

Tim Goodacre, Chair

Andy Borland, Managing Director

Notes to the Financial Statements

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 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 financial statements have been prepared:

- in accordance with Generally Accepted Accounting Practice (GAAP), International Financial Reporting Standards (IFRS), the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for a Tier 1 for-profit entity;
- in accordance with the requirements of the Financial Markets Conduct Act 2013;
- in accordance with accounting policies that are consistent with those applied in the previous year except for adoption of NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from Contracts with Customers*;
- on the basis of historical cost, except for certain assets and financial instruments that are measured at fair values; and
- in New Zealand dollars with all values rounded to the nearest thousand dollars.

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

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

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

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

Key judgements and estimates

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

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

- Apple trees in note C1;
- Unharvested agricultural produce in note C2.

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiaries (being entities controlled by Scales Corporation Limited), and the equity accounted result, assets and liabilities of the joint venture.

The financial statements of members of the Group, are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Other accounting policies

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

Change in accounting policy on adoption of amendments to financial reporting standards, new financial reporting standards and resulting restatement

See Note H.

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

NZ IFRS 16 *Leases*

NZ IFRS 16 *Leases* introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. NZ IFRS 16 will supersede the current lease guidance including NZ IAS 17 *Leases* and the related interpretations when it becomes effective on 1 January 2019.

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. Furthermore, the classification of cash flows will also be affected as operating lease payments under NZ IAS 17 are presented as operating cash flows; whereas under the NZ IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by NZ IFRS 16.

The Group will apply NZ IFRS 16 on 1 January 2019 using the modified retrospective (full simplified) transition method. Comparative periods presented will not be restated.

Most of the Group’s non-cancellable operating lease commitments will meet the definition of a lease under NZ IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of NZ IFRS 16. The expense previously recorded in relation to operating leases will move from being included in operating expenses (and within EBITDA), to depreciation and finance expense. The impact on net earnings before income tax of an individual lease over its term remains the same, however, the new standard will result in a higher interest expense in early years, and lower in later years of a lease, compared with the current straight-line expense profile of an operating lease.

The estimated impact on the statement of profit or loss for the year ending 31 December 2019 would be a decrease in operating expenses of approximately $8.7 million offset by an increase in depreciation of $6.8 million and an increase in net finance expense of $3.5 million. This would result in an increase in EBITDA of $8.7 million but a decrease in net earnings before income tax of $1.6 million. The estimated impact on the statement of financial position as at 1 January 2019 would be an increase in total assets of $72.9 million with an equal and opposite increase in total liabilities.

Other

The Group has reviewed all other Standards, Interpretations and Amendments to existing Standards in issue not yet effective and, except as noted above, does not expect these Standards to have a material effect on the financial statements of the Group.

A. Segment Information

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

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

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, being the Managing Director. The Managing Director monitors the operating performance of each segment for the purpose of making decisions on resource allocation and strategic direction. Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. No single external customer's revenue accounts for 10% or more of the Group's revenue. All non-current assets are located in New Zealand and United States of America.

The Group comprises the following operating segments:

Food Ingredients: processing and marketing of food ingredients such as pet food ingredients and juice concentrate. Meateor Foods Limited, Meateor Foods Australia Pty Limited, Shelby JV LLC Group (Shelby Cold Storage Inc, Shelby Exports Inc, Shelby Foods Inc, Shelby JV LLC, Shelby Properties LLC, Shelby Trucking Corp) and Profruit (2006) Limited.

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

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

Other: Scales Corporation Limited, Geo. H. Scales Limited, Meateor Group Limited, Meateor US LLC, Scales Employees Limited, Scales Holdings Limited and Selacs Insurance Limited.

Liqueo Bulk Storage Limited was sold, and Polarcold Stores Limited and Whakatu Coldstores Limited were reclassified to held for sale during the year. These entities were excluded from the "Storage and Logistics" segment and the segment was renamed to "Logistics". See Note F3 for detail and the results of those entities.

	Horticulture	Food Ingredients	Logistics	Other	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2018						
Total segment revenue	254,568	83,053	89,270	3,756	(28,105)	402,542
Inter-segment revenue	-	-	(24,783)	(3,322)	28,105	-
Revenue from external customers	254,568	83,053	64,487	434	-	402,542
Gain on sale of non-current assets	72	-	-	-	-	72
Share of profit of entity accounted for using equity method	-	1,706	-	-	-	1,706
EBITDA	43,466	11,021	4,902	(7,645)	-	51,744
Amortisation expense	(471)	(4)	(31)	(28)	-	(534)
Depreciation expense	(7,916)	(578)	(206)	(13)	-	(8,713)
Finance revenue	189	4	1	71	-	265
Finance costs	(14)	-	(34)	(2,647)	-	(2,695)
Segment profit (loss) before income tax	35,254	10,443	4,632	(10,262)	-	40,067

Segment Reporting (continued)

	Horticulture $'000	Food Ingredients $'000	Logistics $'000	Other $'000	Eliminations $'000	Total $'000
Segment assets	198,761	92,382	10,706	4,860	-	306,709
Segment liabilities	43,958	20,330	6,650	70,995	-	141,933
Segment carrying value of investment accounted for using the equity method	-	5,213	-	-	-	5,213
Segment acquisition of property, plant and equipment and computer software	10,002	516	780	171	-	11,469
Property, plant and equipment and computer software included in business acquisitions (note F2)	-	4,900	-	-	-	4,900
2017 (Restated)						
Total segment revenue	221,963	68,855	67,560	3,779	(26,626)	335,531
Inter-segment revenue	-	-	(23,495)	(3,131)	26,626	-
Revenue from external customers	221,963	68,855	44,065	648	-	335,531
Loss on sale of non-current assets	(5)	-	(1)	-	-	(6)
Share of profit of entity accounted for using the equity method	-	1,376	-	-	-	1,376
EBITDA	38,263	8,041	3,573	(4,572)	-	45,305
Amortisation expense	(247)	(3)	(19)	(26)	-	(295)
Depreciation expense	(7,593)	(528)	(135)	(28)	-	(8,284)
Finance revenue	94	1	-	60	-	155
Finance costs	(22)	-	-	(3,017)	-	(3,039)
Segment profit (loss) before income tax	30,495	7,511	3,419	(7,583)	-	33,842
Segment assets	182,362	35,743	9,484	4,198	-	231,787
Segment liabilities	38,229	7,906	5,103	51,299	-	102,537
Segment carrying value of investment accounted for using the equity method	-	4,507	-	-	-	4,507
Segment acquisition of property, plant and equipment and computer software	9,063	211	262	73	-	9,609
Property, plant and equipment and computer software included in business acquisitions	-	-	47	-	-	47

B. Financial Performance

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

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

B1. Revenue

	2018 $'000	2017 $'000 (Restated)
By nature:		
Revenue from the sale of goods	312,890	276,626
Revenue from the rendering of services	84,918	54,751
Fees and commission	84	139
Net foreign exchange gain	1,688	1,002
Net hail insurance proceeds	-	119
Rental revenue	2,962	2,894
	402,542	**335,531**
By market:		
New Zealand	106,543	70,357
Asia	117,938	106,925
Europe	93,853	76,603
North America	82,968	79,480
Other	1,240	2,166
	402,542	**335,531**
By segment and type:		
Horticulture - sale of agricultural produce	232,041	209,631
Horticulture - agricultural produce related services	19,572	9,322
Horticulture - other	2,955	3,010
Food ingredients - sale of petfood ingredients	82,246	68,072
Food ingredients - other	807	783
Logistics services	64,487	44,065
Other	434	648
	402,542	**335,531**

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

B1. Revenue (continued)

Sale of agricultural produce

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

Outright sales

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

Consignment sales

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

Sale of petfood ingredients

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

Delivered to destination sales

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

Outright sales

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

Agricultural produce related services

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

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

Logistics services

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

B2. Cost of Sales, Administration and Operating Expenses

	2018 $'000	2017 $'000 (Restated)
Auditor's remuneration:		
Audit of the financial statements		
Audit of the annual financial statements	159	139
Review of interim financial statements	41	42
Other services:		
Audit of solvency certificate for Selacs Insurance Limited	6	6
Anti-bribery and corruption awareness training	6	-
Bad debts incurred	522	47
Change in fair value adjustment to unharvested agricultural produce	256	40
Change in inventories	(17,510)	(5,959)
Direct expenses	47,037	30,871
Directors' fees	463	466

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

	2018 $'000	2017 $'000 (Restated)
Donations	7	22
Electricity	3,174	3,010
Employee benefits expense:		
Post employment benefits - defined contribution plans	1,227	1,110
Salaries, wages and related benefits	67,426	58,034
Other employee benefits	1,049	748
Grower payments	53,036	49,613
Insurance	3,594	3,240
Management fees	141	119
Materials and consumables	78,802	59,157
Ocean and air freight	77,903	61,721
Operating lease expenses	10,672	8,994
Packaging	18,684	15,533
Repairs and maintenance	6,045	4,015
	352,740	**290,968**
Disclosed as:		
Cost of sales	312,228	256,682
Administration and operating expenses	40,512	34,286
	352,740	**290,968**

Employee Benefits

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

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

The costs relating to shares issued in accordance with the Senior Executive Share Scheme are explained in note D2.

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

	2018 $'000	2017 $'000 (Restated)
Dividends	18	1
Gain (loss) on disposal of property, plant and equipment	72	(6)
Remeasurement of gross liability to non-controlling interest	146	(629)
	236	**(634)**
Disclosed as:		
Other income	236	1
Other losses	-	(635)
	236	**(634)**

B4. Finance Cost

	2018 $'000	2017 $'000 (Restated)
Interest on loans	2,417	2,729
Other interest	94	180
Bank facility fees	184	130
	2,695	**3,039**

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

B5. Taxation

Income Tax Recognised in Profit or Loss

Income tax expense comprises:		
Current tax expense from continuing operations	10,892	8,209
Current tax expense from discontinued operations	2,736	3,235
Total current tax expense	**13,628**	**11,444**
Adjustments recognised in the current year in relation to the current tax of prior years	-	(503)
Deferred tax expense relating to the origination and reversal of temporary differences	1,277	1,186
	14,905	**12,127**
Total income tax expense recognised in profit or loss from continuing operations	11,044	9,277
Total income tax expense recognised in profit or loss from discontinued operations (Note F3)	3,861	2,850
Total income tax expense recognised in profit or loss	**14,905**	**12,127**

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	40,067	33,842
Profit from discontinued operations (Note F3)	20,337	9,902
Total profit before tax	**60,404**	**43,744**
Income tax expense calculated at 28%	16,913	12,248
Non-assessable income	(2,772)	(390)
Non-deductible expenses	726	443
Under (over) provision of income tax in previous year - current tax	11	(503)
Under provision of income tax in previous year - deferred tax	27	329
	14,905	**12,127**

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, 30% payable by Australian companies under Australian law and 21% payable by US entities under US tax law.

B5. Taxation (continued)

	Opening balance $'000	Charged to profit or loss $'000	Charged to other comprehensive income $'000	Discontinued operations $'000	Closing balance $'000
Deferred Tax Liability					
Taxable and deductible temporary differences arise from the following:					
31 December 2018					
Deferred tax liabilities (assets):					
Trade and other receivables	(5)	(134)	-	(1)	(140)
Unharvested agricultural produce	5,652	(94)	-	-	5,558
Property, plant and equipment and computer software	21,496	1,611	44	(12,318)	10,833
Trade and other payables	(669)	(106)	-	308	(467)
Other financial assets and liabilities	1,701	-	(1,897)	-	(196)
Net deferred tax liability	**28,175**	**1,277**	**(1,853)**	**(12,011)**	**15,588**
31 December 2017					
Deferred tax liabilities (assets):					
Trade and other receivables	(5)	-	-	-	(5)
Unharvested agricultural produce	4,883	769	-	-	5,652
Property, plant and equipment and computer software	20,334	574	588	-	21,496
Trade and other payables	(512)	(157)	-	-	(669)
Other financial assets and liabilities	3,487	(60)	(1,726)	-	1,701
Net deferred tax liability	**28,187**	**1,126**	**(1,138)**	**-**	**28,175**

Current tax is the taxation expected to be paid to taxation authorities in respect of the current year. Deferred taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Current and deferred tax is calculated on the basis of the laws enacted or substantively enacted at balance date.

Income Tax

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

B6. Foreign Currency Transactions

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

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

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

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

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

C. Key Assets

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

- property, plant and equipment;
- unharvested agricultural produce;
- investments accounted for using the equity method;
- goodwill; and
- inventories.

C1. Property, Plant and Equipment

	Land and Buildings at fair value $'000	Apple Trees at fair value $'000	Plant and Equipment at cost $'000	Office Equipment & Motor Vehicles at cost $'000	Capital Work in Progress at cost $'000	Total $'000
Gross carrying amount						
Balance at 1 January 2017	**140,670**	**31,139**	**108,861**	**19,282**	**4,913**	**304,865**
Additions	252	2,209	7,599	2,505	(739)	11,826
Acquisition of businesses	-	-	-	47	-	47
Disposals	(9)	-	(685)	(1,032)	-	(1,726)
Revaluation	1,712	-	-	-	-	1,712
Balance at 31 December 2017	**142,625**	**33,348**	**115,775**	**20,802**	**4,174**	**316,724**
Additions	843	3,857	6,019	1,187	19	11,925
Acquisition of businesses (Note F2)	2,187	-	2,691	22	-	4,900
Reclassified as held for sale (Note F3)	(65,450)	-	(38,596)	(7,912)	(2,179)	(114,137)
Sale of bulk storage assets (Note F3)	(2,132)	-	(14,752)	(182)	-	(17,066)
Disposals	(219)	-	(3,477)	(1,953)	-	(5,649)
Revaluation	8,794	(5,605)	-	-	-	3,189
Effect of foreign currency translation	21	-	26	-	-	47
Balance at 31 December 2018	**86,669**	**31,600**	**67,686**	**11,964**	**2,014**	**199,933**
Accumulated depreciation and impairment						
Balance at 1 January 2017	**-**	**185**	**64,570**	**13,458**	**-**	**78,213**
Depreciation expense	2,488	2,432	6,628	2,113	-	13,661
Disposals	-	-	(595)	(948)	-	(1,543)
Revaluation	(2,488)	-	-	-	-	(2,488)
Balance at 31 December 2017	**-**	**2,617**	**70,603**	**14,623**	**-**	**87,843**
Depreciation expense	1,609	2,522	5,030	1,618	-	10,779
Reclassified as held for sale (Note F3)	(607)	-	(24,345)	(5,368)	-	(30,320)
Sale of bulk storage assets (Note F3)	-	-	(7,380)	(65)	-	(7,445)
Disposals	(34)	-	(3,461)	(1,908)	-	(5,403)
Revaluation	(968)	(5,139)	-	-	-	(6,107)
Balance at 31 December 2018	**-**	**-**	**40,447**	**8,900**	**-**	**49,347**
Net book value						
As at 31 December 2017	142,625	30,731	45,172	6,179	4,174	228,881
As at 31 December 2018	**86,669**	**31,600**	**27,239**	**3,064**	**2,014**	**150,586**

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

C1. Property, Plant and Equipment (continued)

Accounting Policy

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

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

Depreciation on revalued buildings and apple trees is charged to profit or loss. On the subsequent sale or retirement of revalued property or apple trees, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

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

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

Apple trees	30 years
Buildings	10 to 50 years
Office Equipment and Motor Vehicles	2 to 20 years
Plant and Equipment	2 to 25 years

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

Land and Buildings carried at Fair Value

Land and buildings shown at valuation were valued at fair value as at 31 December 2018 by independent registered valuers Added Valuation Limited and Logan Stone Limited. The valuations were arrived at by reference to market evidence of transaction prices for similar properties.

The fair value of land and buildings is calculated on the basis of market value. Market value is determined by applying income capitalisation and comparative sales calculations which are benchmarked against depreciated replacement cost calculations. The valuations include adjustments to observable data for similar properties to take into account property-specific attributes.

The significant unobservable inputs, based on regional averages, for the land and buildings (mainly coldstores and packhouses) are potential market comparative rentals $12 - $150 per square metre and the capitalisation rates of 8.75% - 12.5%. The higher the rental rates the higher the fair value. The higher the capitalisation rates the lower the fair value. Significant changes in either of these inputs would result in significant changes to the fair value measurement.

Orchard land is valued within the range of $28,300 to $107,000 per hectare.

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

The carrying amount of land and buildings had it been recognised under the cost model is $48,774,000 (31 December 2017: $82,221,000).

Apple Trees carried at Fair Value

The Group's apple orchards, being the apple trees other than the existing crop on the trees, were valued at fair value by Boyd Gross B.Agr (Rural Val), Dip Bus Std, FNZIV, FPINZ of Logan Stone Limited as at 31 December 2018. The market valuations completed by Boyd Gross were based on a DCF analysis of forecast income streams and costs. This was benchmarked against a comparison of sales of other orchards adjusted to reflect the location, plantings, age and varieties of trees and productive capabilities of the orchards.

The significant unobservable inputs, based on district averages, for the apple trees are:

	2018	2017
Production levels (gross tray carton equivalent (tce)) per hectare	3,250 - 5,950	3,305 - 5,896
Orchard gate returns per tce	$25.75 - $45.54	$24.36 - $39.90
Orchard costs per tce	$19.55 - $32.45	$18.77 - $31.39
Discount rate	16.0% - 19.40%	18.0% - 21.40%

The higher the production levels and orchard gate return the higher the fair value. The higher the orchard costs and discount rate the lower the fair value. Significant changes in any of these inputs would result in significant changes to the fair value measurement. The Group's apple trees are classified as level 3 in the fair value hierarchy.

C1. Property, Plant and Equipment (continued)

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

	Total Hectares Planted	
	2018	2017
Premium varieties:		
NZ Queen	211	211
Pink Lady	120	119
Red sports (Fuji and Royal Gala)	247	234
Other premium	122	75
Traditional varieties:		
Braeburn	128	165
Royal Gala	182	186
Other traditional	145	158
	1,155	**1,148**

The exported volume from Mr Apple's planted apple orchard was 3,867,000 TCEs (2017: 3,545,000 TCEs).

Risk Management Strategy:

The Group is exposed to financial risks arising from changes in climatic conditions, market prices and the value of the New Zealand dollar. The Group mitigates these risks by installing hail and frost protection on orchards which have shown to be more susceptible to these risks, obtaining hail insurance cover, utilising foreign currency derivative instruments and building close working relationships with key customers.

C2. Unharvested Agricultural Produce

	2018 $'000	2017 $'000
Balance at beginning of the year	20,189	18,433
Decrease due to harvest	(20,189)	(18,433)
Development expenditure	19,850	19,236
Fair value adjustment	697	953
Balance at end of the year	**20,547**	**20,189**

The assessment of the value of unharvested agricultural produce was undertaken by management, using a discounted cash flow model, and is calculated as the fair value less estimated harvest and post-harvest costs of the unharvested crop on the trees at the reporting date. The risk adjusting discount rate represents an allowance for adverse events that may affect crop, harvest and/or market conditions. This calculation is also benchmarked against orchard costs incurred during the current growing cycle.

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

The significant unobservable inputs included in the model are the:

	2018 $'000	2017 $'000
Production levels (tonnes per hectare per annum)	59 - 115	60 - 107
Orchard gate returns per tce	$24 to $41	$22 to $39
Risk adjusting discount rates	55% to 73%	51% to 72%

The higher the yield per hectare and the higher the orchard gate returns per tce, the higher the fair value. The higher the risk adjusting discount rate, the lower the fair value.

C3. Investments Accounted for Using the Equity Method

	2018 $'000	2017 $'000
Share of profit before taxation	2,369	1,915
Share of income tax	(663)	(539)
Share of Net Profit for the Year and Total Comprehensive Income	**1,706**	**1,376**
Carrying value at beginning of the year	4,507	4,131
Dividend paid	(1,000)	(1,000)
Investment in Equity Accounted Entity	**5,213**	**4,507**

Profruit (2006) Limited, which is domiciled in New Zealand and has a 31 December balance date, is a joint venture investment as at 31 December 2018 and 31 December 2017. The principal activity is juice production and sales. Scales held 50% of Profruit (2006) Limited as at 31 December 2018 and 31 December 2017.

The Scales Corporation Limited Group share of the guarantee of the Profruit (2006) Limited bank loan facilities is $691,092 (2017: $1,494,197).

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

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

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

C4. Goodwill

	2018 $'000	2017 $'000
Gross Carrying Amount		
Balance at beginning of the year	18,177	16,222
Disposal of Liqueo Bulk Storage Limited	(1,989)	-
Acquisition of OceanAir business and assets and shares in OceanAir Freight Pty Limited	-	1,955
Acquisition of 60% in Shelby JV LLC Group (see Note F2)	27,421	-
Effect of foreign currency exchange differences	266	-
Balance at end of the year	**43,875**	**18,177**

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.

C4. Goodwill (continued)

	2018	2017
	$'000	$'000
Storage and Logistics	1,955	3,944
Horticulture	14,233	14,233
Food Ingredients US	27,687	-
	43,875	**18,177**

As at 31 December 2018, the Directors have determined, based on discounted cash flow and value in use calculations, that there is no impairment of goodwill associated with any of the above CGUs. The 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

	2018	2017
	$'000	$'000
Finished goods	40,483	17,798
Other	4,959	4,414
	45,442	**22,212**

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

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

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

Capital Management

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

D1. Share Capital

Issued and paid up capital consists of 141,103,597 fully paid ordinary shares (2017: 140,510,292) less treasury stock of 1,195,664 shares (2017: 721,056 shares) (refer to note D2). All shares rank equally in all respects.

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

	Number of shares	
	2018	2017
Fully paid ordinary shares		
Opening balance	140,510,292	139,779,006
Shares issued as consideration for business acquisition	-	283,405
Share Scheme - shares issued	593,305	335,211
Cash-settled share based payment shares issued	-	112,670
Closing balance	**141,103,597**	**140,510,292**
Treasury stock		
Opening balance	721,056	1,847,257
Share Scheme - shares issued	593,305	335,211
Share Scheme - shares forfeited and sold on market	(22,504)	(50,212)
Share Scheme - shares fully vested	(96,193)	(1,411,200)
Closing balance	**1,195,664**	**721,056**

The available subscribed capital of $41,230,000 (2017: $38,531,000) represents the amount of the shareholders' equity that is available to be returned to shareholders on a tax-free basis.

In accordance with the Companies Act 1993 the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

D2. Reserves

	Revaluation	Cash flow hedge	Equity-settled employee benefits	Foreign exchange translation	Revaluation related to discontinued operations	Total reserves
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2017 (Restated)	**57,717**	**9,565**	**503**	**-**	**-**	**67,785**
Other comprehensive income (loss) for the year	3,612	(4,437)	-	-	-	(825)
Recognition of share-based payments	-	-	389	-	-	389
Shares fully vested	-	-	(462)	-	-	(462)
Balance at 31 December 2017 (Restated)	**61,329**	**5,128**	**430**	**-**	**-**	**66,887**
Other comprehensive income (loss) for the year	9,252	(4,878)	-	49	-	4,423
Transfer to retained earnings	(129)	-	-	-	-	(129)
Transfer to discontinued operations	(25,912)	-	-	-	25,912	-
Recognition of share-based payments	-	-	849	-	-	849
Shares fully vested	-	-	(31)	-	-	(31)
Balance at 31 December 2018	**44,540**	**250**	**1,248**	**49**	**25,912**	**71,999**

Revaluation Reserve

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

Cash flow hedge reserve

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

Equity-settled Employee Benefits Reserve

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

Grant date	Vesting date	Exercise price, $	Number of shares				
			Opening balance	Granted	Forfeited	Vested and exercised	Closing balance
8 May 2015 - BF	8 May 2018	1.66	96,193	-	-	96,193	-
22 April 2016 - FY15	22 April 2019	1.67	298,998	-	11,352	-	287,646
5 May 2017 - FY16A	5 May 2020	1.70	290,031	-	11,152	-	278,879
5 May 2017 - FY16B	5 May 2020	2.45	35,834	-	-	-	35,834
20 April 2018 - FY17A	20 April 2021	1.70	-	309,698	-	-	309,698
20 April 2018 - FY17B	20 April 2021	2.51	-	36,007	-	-	36,007
20 April 2018 - FY17C	20 April 2021	3.62	-	40,577	-	-	40,577
28 June 2018 - FY17R	28 June 2021	4.13	-	207,023	-	-	207,023
Total			**721,056**	**593,305**	**22,504**	**96,193**	**1,195,664**

The weighted average share price for shares that vested on 8 May 2018 was $4.75.

The shares issued vest over three years. The estimated value of the share options was determined using the Black-Scholes pricing calculator and is being amortised over the restrictive period. This cost is expensed with the corresponding credit included in the equity-settled employee benefits reserve. Expected share price volatility was based on historical volatility of the Company ordinary shares.

D2. Reserves (continued)

The inputs into the "option pricing calculator" are:

	2018				2017	
	FY17A	FY17B	FY17C	FY17R	FY16A	FY16B
Acquisition date share price, $	4.46	4.46	4.46	4.71	3.35	3.35
Expected share price volatility, %	22	22	22	22	23	23
Option life, years	3	3	3	3	3	3
Risk-free interest rate, %	2.11	2.11	2.11	2.01	2.31	2.31
Exercise price, $	1.70	2.51	3.62	4.13	1.70	2.45
Fair value, at the grant date, $	**2.87**	**2.13**	**1.27**	**1.14**	**1.77**	**1.16**

Foreign exchange translation reserve

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

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

Retained Earnings

Retained earnings represents the profits retained in the business.

D3. Dividends

	2018	2017
	$'000	$'000
Final dividend paid - 9.00 (2017: 10.00) cents per share	12,598	13,811
Interim dividend declared - 9.50 (2017: 9.00) cents per share	13,299	12,586
	25,897	**26,397**

The 2018 interim dividend was declared on 5 December 2018 and paid on 18 January 2019.

D4. Imputation Credit Account

	2018	2017
	$'000	$'000
Balance at end of the year	**21,794**	**18,583**

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

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

D5. Earnings Per Share

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

	2018 $'000	2017 (Restated) $'000
Profit attributable to equity holders of the Company ($000's):		
From continuing operations	28,608	24,124
From discontinued operations	16,476	7,052
Total	**45,084**	**31,176**
Weighted average number of shares:		
Ordinary shares	139,869,055	138,738,233
Effect of dilutive ordinary shares (non-vested Senior Executive Share Scheme)	447,143	751,619
Weighted average number of Ordinary Shares for diluted earnings per share	**140,316,198**	**139,489,852**
Earnings per share (cents):		
Basic - continuing	20.5	17.4
Basic - discontinued	11.8	5.1
Basic - total	**32.2**	**22.5**
Diluted - continuing	20.4	17.3
Diluted - discontinued	11.7	5.1
Diluted - total	**32.1**	**22.4**

E. Financial Assets and Liabilities

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

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

Accounting Policies

Financial Assets

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

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

Financial assets at 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, trade receivables and employee loans are classified in this category.

Impairment of financial assets

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

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

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

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

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Financial Liabilities Measured at Amortised Cost

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

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value with reference to observable market data at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as cash flow hedges. A derivative is presented as a non-current asset or a non-current liability where the cash flow will occur after 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge Accounting

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

Cash Flow Hedges

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

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

Hedges of net investments in foreign operations

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

E1. Trade and Other Receivables

	2018 $'000	2017 $'000
Trade receivables	17,646	18,724
Other receivables	1,149	1,356
Owing by entity accounted for using the equity method	97	76
Goods and services tax	4,018	3,281
	22,910	**23,437**

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 49.06% (2017: five customers who represent 25.93%) 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	3,979	3,995
Two months	714	790
More than two months	4,034	786
	8,727	**5,571**

E2. Other Financial Assets

Current:

At fair value:		
Foreign currency derivative instruments	3,921	6,415
	3,921	**6,415**

Non-current:

At fair value:		
Foreign currency derivative instruments	6,024	6,544
Shares in unlisted companies	211	211
At amortised cost:		
Employee loans	668	1,009
	6,903	**7,764**

E3. Trade and Other Payables

	2018 $'000	2017 $'000
Trade payables	14,029	10,325
Accruals	9,599	7,214
Employee entitlements	3,654	4,676
	27,282	**22,215**

E4. Borrowings

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

The Group signed Multi-Option Facility Agreements with Coöperatieve Rabobank U.A., New Zealand Branch ("Rabobank") and Westpac New Zealand Limited ("Westpac") on 22 March 2013. The total facility is $80,000,000 (2017: $90,000,000). At 31 December 2018 the undrawn amount under these facilities was $48,000,000 (2017: $43,500,000).

On 17 December 2018, the Group obtained an additional USD 11,635,000 term loan from Rabobank and USD 11,635,000 from Westpac. These facilities were utilised to finance the acquisition of Shelby JV LLC Group. The USD denominated loans are designated as a hedge of net investment in foreign operations. Post balance date, the unused portions of the USD facilities have expired and the facility limits reduced to the above amounts.

The floating interest rate is 2.87% to 3.16% (2017: 2.94% to 3.34%) and the term borrowing facility expiry date is 1 July 2020. Seasonal facility presented as current borrowings is due for repayment within one year. The bank facilities are secured by a first ranking security interest granted by each of the Charging Group* Companies over all its present and after-acquired property (including proceeds) and a first ranking security interest over any of the Charging Group Companies present and future assets and undertakings which are not personal property. The bank facilities are also secured by first and exclusive registered mortgages over property comprising coolstores, orchards and industrial and commercial property owned by members of the Charging Group.

*Charging Group Companies are Scales Corporation Limited, Scales Holdings Limited, Mr Apple New Zealand Limited, New Zealand Apple Limited, Polarcold Stores Limited, Whakatu Coldstores Limited, Geo.H.Scales Limited, Meateor Foods Limited, Scales Logistics Limited and Meateor Group Limited.

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

E5. Other Financial Liabilities

Current financial liabilities at fair value:

Foreign currency derivative instruments	2,662	1,312
Interest rate swap contracts and forward rate agreements	577	481
Put option	2,424	2,538
	5,663	**4,331**

Non-current financial liabilities at fair value:

Foreign currency derivative instruments	4,646	3,318
Interest rate swap contracts and forward rate agreements	780	725
Put option	2,088	-
	7,514	**4,043**

On 11 January 2016 the Group increased its shareholding in Fern Ridge Produce Limited ("Fern Ridge") to 75%. As part of the transaction, 2.12% of the shares were then sold to an employee of Fern Ridge, and Scales entered into agreements with the remaining shareholders of Fern Ridge whereby those shareholders have an option to "put" their shares to Scales at a value based on a multiple of Fern Ridge profits, but with a minimum value equivalent to that paid to the selling shareholders.

See Note F2 for detail regarding the put option in respect of 5% of the total units in Shelby JV LLC Group.

E6. Interest Rate Risk

Interest Rate Risk Management

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

Interest Rate Swap Contracts and Forward Rate Agreements

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

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

Maturity Date	Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2018	2017	2018	2017	2018	2017
	%	%	$'000	$'000	$'000	$'000
Interest rate swap contracts:						
Within one year	3.05	-	35,000	-	(241)	-
Two to five years	3.93	4.02	20,000	30,000	(1,116)	(938)
After five years	-	3.25	-	10,000	-	(268)
			55,000	**40,000**	**(1,357)**	**(1,206)**

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.

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

	2018		2017	
	+1%	-1%	+1%	-1%
	$000's	$000's	$000's	$000's
Impact on net profit after tax	(427)	427	(558)	558
Impact on cash flow hedge reserve net of tax	598	(632)	723	(770)

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:

	2018		2017	
	Contract Value	Fair Value	Contract Value	Fair Value
	$'000	$'000	$'000	$'000
Sale commitments forward foreign exchange contracts	204,693	(1,308)	260,406	3,546
Sale commitments foreign exchange options	168,079	3,945	96,787	4,783

E7. Foreign Currency Risk (continued)

These foreign currency instruments are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movements in foreign currency exchange rates on anticipated future transactions. It is anticipated that the sales will take place during the 2019 to 2022 financial years at which stage the amount deferred in equity will be released into profit or loss.

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

	2018		2017	
	+5%	-5%	+5%	-5%
	$000's	$000's	$000's	$000's
Impact on net profit after tax	284	(257)	133	(120)
Impact on cash flow hedge reserve net of tax	(11,846)	10,960	(11,996)	11,043

E8. Categories of Financial Instruments

	2018	2017
	$'000	$'000
Financial Assets:		
Amortised cost	22,350	26,855
Derivative instruments in designated hedge accounting relationships	9,945	12,959
Fair value through profit or loss	211	211
	32,506	**40,025**
Financial Liabilities:		
Amortised cost	112,323	81,301
Derivative instruments in designated hedge accounting relationships	8,665	5,836
Fair value through profit or loss	4,512	2,538
	125,500	**89,675**

E9. Maturity Profile of Financial Liabilities

Liquidity Risk Management

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

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

	Within Three Months $'000	Four Months to One Year $'000	One to Five Years $'000	Total $'000
2018				
Trade and other payables	27,282	-	-	27,282
Dividend declared	13,299	-	-	13,299
Put options	2,424	-	2,088	4,512
Borrowings	2,593	1,797	65,862	70,252
Interest rate swaps and forward rate agreements	323	968	2,033	3,324
	45,921	**2,765**	**69,983**	**118,669**
2017				
Trade and other payables	22,215	-	-	22,215
Dividend declared	12,586	-	-	12,586
Put options	1,269	1,269	-	2,538
Borrowings	363	7,601	40,633	48,597
Interest rate swaps and forward rate agreements	120	364	1,247	1,731
	36,553	**9,234**	**41,880**	**87,667**

F. Group Structure

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

- subsidiaries;
- the acquisition of Shelby JV LLC and its subsidiaries;
- the sale of Liqueo Bulk Storage Limited and reclassification of Polarcold Stores Limited and Whakatu Coldstores Limited to assets held for sale.

F1. Subsidiary Companies

Subsidiary Companies:	Principal Activity	Country of Incorporation	Holding 2018	Holding 2017	Balance Date
Fern Ridge Produce Limited	Trading company	New Zealand	72.88%	72.88%	31 December
Geo. H. Scales Limited	Non trading company	New Zealand	100%	100%	31 December
Liqueo Bulk Storage Limited	Trading company	New Zealand	0%	100%	31 December
Longview Group Holdings Limited	Non trading company	New Zealand	100%	100%	31 December
Longview New Zealand Limited	Liquidated during the year	New Zealand	0%	100%	31 December
Longview Packhouse Limited	Liquidated during the year	New Zealand	0%	100%	31 December
Meateor Foods Australia Pty Limited	Trading company	Australia	100%	100%	31 December
Meateor Foods Limited	Trading company	New Zealand	100%	100%	31 December
Meateor Group Limited	Holding company	New Zealand	100%	0%	31 December
Meateor US LLC	Holding company	United States	100%	0%	31 December
Mr Apple New Zealand Limited	Trading company	New Zealand	100%	100%	31 December
New Zealand Apple Limited	Trading company	New Zealand	100%	100%	31 December
Polarcold Stores Limited	Coldstore operator	New Zealand	100%	100%	31 December
Scales Employees Limited	Custodial company	New Zealand	100%	100%	31 December
Scales Holdings Limited	Holding company	New Zealand	100%	100%	31 December
Scales Logistics Limited	Freight consolidator	New Zealand	100%	100%	31 December
Scales Logistics Australia Pty Ltd*	Freight consolidator	Australia	100%	100%	31 December
Selacs Insurance Limited	Insurance company	New Zealand	100%	100%	31 December
Shelby Cold Storage, Inc (Note F2)	Coldstore operator	United States	60%	0%	31 December
Shelby Exports, Inc (Note F2)	Non trading company	United States	60%	0%	31 December
Shelby Foods, Inc (Note F2)	Trading company	United States	60%	0%	31 December
Shelby JV LLC (Note F2)	Holding company	United States	60%	0%	31 December
Shelby Properties LLC (Note F2)	Non trading company	United States	60%	0%	31 December
Shelby Trucking Corp (Note F2)	Trading company	United States	60%	0%	31 December
Whakatu Coldstores Limited	Non trading company	New Zealand	100%	100%	31 December

** OceanAir Freight Pty Ltd prior to 7 September 2018*

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. Acquisition of Shelby JV LLC Group

On 20 December 2018 Scales Corporation Limited, through its wholly owned subsidiary Meateor US LLC, acquired 60% of Shelby JV LLC and its subsidiaries Shelby Foods Inc, Shelby Exports Inc, Shelby Cold Storage Inc, Shelby Trucking Corp and Shelby Properties LLC (collectively, "Shelby Group"). Shelby Group is a large independent US buyer, processor, and seller of ingredients for the petfood industry.

As part of the transaction, the Company entered into an agreement with the vendor whereby the vendor has an option to put a further 5% of total units in Shelby JV LLC to Scales at a value based on a multiple of Shelby Group EBITDA. The obligation to acquire the ownership interest under the put option is included in other financial liabilities. Scales has control over Shelby Group as it holds a 60% ownership interest and has the right to appoint and remove 3 of the 5 directors of Shelby JV LLC. Due to the timing of the acquisition, the acquisition accounting fair value adjustments were identified as being on a provisional basis in the Scales Group's 31 December 2018 financial statements.

Details of the acquisition are as follows:

	Carrying Value on Acquisition $'000	Fair Value on Acquisition $'000
Current assets		
Trade and other receivables	4,819	4,819
Inventory	5,938	5,938
Prepayments	193	193
Other assets	53	53
Non-current assets		
Property, plant and equipment	3,995	4,902
Current liabilities		
Trade and other payables	(2,824)	(2,824)
Net assets acquired	12,174	13,081
Less fair value of non-controlling interest		(5,233)
Goodwill on acquisition		27,421
Net cash outflow on acquisition		**35,269**

Goodwill arising on acquisition

Goodwill arose on the acquisition of Shelby Group because the cost of acquisition included established operations in the US markets, synergies and future market benefits as the operations provide strong strategic alignment with the operations of our existing petfood ingredients business, Meateor. Shelby Group extends the range of proteins that Meateor presently offers whilst also offering an in-market point of contact for customers that are shared between the two businesses. Shelby adds approximately 80,000 MT of product sales to Meateor's sale volume of approximately 27,000 MT.

These benefits are not recognised separately from goodwill as the expected future economic benefits arising cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

Accounting for put option

Gross liability for the put option referred to above is discounted to present value of $2,088,000 and has been included in other non-current financial liabilities and as a corresponding reduction to non-controlling interest.

Impact of the acquisition on the results of the Group

Shelby Group contributed $123,000 to the Group profit for the year. Group revenue for the year includes $1,688,000 in respect of Shelby Group. Had the Shelby Group acquisition been effective at 1 January 2018, the revenue of the Group would have been $480,568,000 and the profit for the year would have been $50,231,000.

F3. 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 Overseas Investment Office (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 will be 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.

F3. Discontinued Operations (continued)

The results of discontinued operations are set out below:

	2018 $'000	2017 $'000
Revenue	62,164	57,562
Cost of sales	(25,873)	(24,414)
	36,291	**33,148**
Other operating expenses including transaction costs	(21,968)	(17,596)
EBITDA	**14,323**	**15,552**
Amortisation	(109)	(293)
Depreciation	(2,066)	(5,377)
EBIT	**12,148**	**9,882**
Finance revenue	15	20
Profit before tax from discontinued operations	**12,163**	**9,902**
Income tax expense	(3,861)	(2,850)
Profit before tax from discontinued operations	**8,302**	**7,052**
Gain on disposal net of tax	8,174	-
Profit from discontinued operations net of tax	**16,476**	**7,052**

The major classes of assets and liabilities of Polarcold Stores Limited and Whakatu Coldstores Limited classified as held for sale as at 31 December 2018 are as follows:

Assets	
Cash and bank balances	6,729
Trade and other receivables	9,126
Prepayments	297
Property, plant and equipment	87,362
Computer software	864
	104,378
Liabilities	
Trade and other payables	4,719
Current tax liabilities	2,842
Deferred tax liabilities	11,720
	19,281
Net assets directly associated with disposal group	**85,097**
Revaluation reserve related to discontinued operations	**25,912**

	2018 $'000	2017 $'000
The net cash flows pertaining to the entities referred to above are as follows:		
Operating	13,612	10,832
Investing	(4,908)	(3,759)
Financing	-	-
Net cash inflow	**8,704**	**7,073**

G. Other

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

G1. Capital Commitments

	2018 $'000	2017 (Restated) $'000
Commitments entered into in respect of apple trees as at balance date	1,199	2,161

G2. Operating Lease Commitments

The Group as Lessee

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

Non-cancellable operating lease commitments:		
Not later than 1 year	9,095	7,144
Later than 1 year and not later than 5 years	27,298	20,199
Later than 5 years	13,382	12,105

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 3rd 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:

	2018 $'000	2017 $'000
Short-term employee benefits	3,002	2,820
Share-based payments	963	433
Post-employment benefits	111	102
	4,076	**3,355**

During 2018, 379,082 (2017: 145,813) shares were issued to key management personnel in accordance with the senior executive share scheme described in note D2.

Transactions with the Equity Accounted Entity		
Revenue from sale of goods	1,306	890
Revenue from services	1,322	968
Dividends received	1,000	1,000
Trade receivables at balance date	97	76

G4. Contingent Liability

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

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

The cause of the event is uncertain and is under investigation by the specialists. The cause of the event will determine whether it is covered by the insurance policy. The claim will not be accepted until such time that (a) the cause is established, and (b) it is confirmed that the event is covered by the insurance policy.

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

No claim expense, reinsurance revenue, claim payable and reinsurance receivable have been recorded in the financial statements.

G5. Events Occurring After Balance Date

As stated above, Scales sold its coldstorage businesses (Polarcold Stores Limited and Whakatu Coldstores Limited) to Emergent Cold on 9 May 2018, subject to the sole condition of OIO approval. The sale agreement required that this condition be met by 9 February 2019. Given that the process of obtaining OIO approval remains ongoing, Scales and Emergent Cold have agreed to extend the condition date, from 9 February 2019 to 31 May 2019.

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

H. Adoption of New and Amended Financial Reporting Standards, Resulting Restatements and Other Restatements

This section summarised the effect of the change in accounting policy on the prior period disclosures resulting from the application of NZ IFRS 9 (2014) and NZ IFRS 15. In addition, it summarises the effect of application of NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

The 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 below. 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 3 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. Given the seasonality of the business, nature of the sales and type of customers of the Group, there was no material impact.

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.

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

The 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 below.

Application of NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The Comparative year has been restated as required by NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

	Year ended 31 December 2017				
	Previously reported	Adjustments			Restated
		NZ IFRS 5	NZ IFRS 9	NZ IFRS 15	
	$'000	$'000	$'000	$'000	$'000
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 profit of entity accounted for using the equity method	1,376	-	-	-	1,376
Other income	233	(18)	(214)	-	1
Administration and operating expenses	(51,871)	17,585	-	-	(34,286)
Other losses	(665)	30	-	-	(635)
EBITDA	**61,071**	**(15,552)**	**(214)**	**-**	**45,305**
Amortisation	(588)	293	-	-	(295)
Depreciation	(13,661)	5,377	-	-	(8,284)
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 Year from Continuing Operations	**31,771**	**(7,052)**	**(154)**	**-**	**24,565**
Profit from discontinued operations net of tax	-	7,052	-	-	7,052
Profit for the Year	**31,771**	**-**	**(154)**	**-**	**31,617**
Other Comprehensive Income					
Items that will not be reclassified to profit or loss:					
Revaluation of land and buildings	4,200	-	-	-	4,200
Income tax relating to buildings	(588)	-	-	-	(588)
	3,612	**-**	**-**	**-**	**3,612**
Items that may be reclassified subsequently to profit or loss:					
Loss on cash flow hedges	(6,377)	-	214	-	(6,163)
Income tax relating to cash flow hedges	1,786	-	(60)	-	1,726
	(4,591)	**-**	**154**	**-**	**(4,437)**
Other Comprehensive (Loss) Income for the Year	**(979)**	**-**	**154**	**-**	**(825)**
Total Comprehensive Income for the Year	**30,792**	**-**	**-**	**-**	**30,792**

	Cash flow hedge reserve	Retained earnings
Balance at 1 January 2017 as previously reported	8,965	57,251
NZ IFRS 9 restatement	600	(600)
Balance at 1 January 2017 - restated	**9,565**	**56,651**

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SCALES CORPORATION LIMITED

Opinion

We have audited the consolidated financial statements of Scales Corporation Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 44 to 80, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, the provision of bribery and corruption training and the provision of other assurance services, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $2.1 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Unharvested Agricultural Produce Unharvested agricultural produce growing on bearer plants (e.g. fruit), is measured at fair value less costs to sell. The Group's unharvested agricultural produce was valued at $20.5 million at balance date as described in note C2. A revaluation gain of $0.7 million is recorded in profit or loss. Fair value less cost to sell is calculated by the Group using a discounted cash flow model. The model includes significant unobservable inputs and assumptions including, for each variety, the forecast production per hectare per annum by weight, sales prices, and risk-adjusting discount rates, as well as costs to harvest and sell. The risk-adjusting discount rates take into account the risk of unknown adverse events that may affect crop, harvest and/or market conditions. The valuation of unharvested agricultural produce is considered to be a key audit matter due to the level of judgement required to determine the fair value less costs to sell.	Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the internal valuation model. Our procedures included, amongst others: • Holding discussions with management and considering market information to identify factors, including environmental or market risks, that would impact the current crop valuation. • Engaging a Deloitte valuation specialist to consider whether the valuation method applied was appropriate and whether the risk-adjusting discount rates were reasonable based on market information and risks relating to the unharvested agricultural produce. • Challenging the reasonableness of the key assumptions by comparing the forecast production, prices, and costs to harvest and sell for the current growing season to the approved budgets for each orchard. • Assessing the historical accuracy of the Group's budget forecasts. • Checking the mechanical accuracy of the discounted cash flow model.

Valuation of Apple Trees
 	
As disclosed in note C1 the Group has apple trees valued at $31.6 million. A revaluation loss of $0.47 million has been recorded in other comprehensive income.
 	
The Group has a policy of recording apple trees at fair value with valuations performed with sufficient regularity that the carrying amount at the end of a reporting period does not differ materially from their fair value.
 	
Apple trees are valued on the basis of a discounted cash flow analysis of forecast income streams and costs from each orchard. The model uses a number of significant unobservable inputs, in particular: production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates.
 	
Valuation of apple trees is considered to be a key audit matter due to the significance of the assets to the Group's consolidated statement of financial position, and the level of judgement involved in valuing the apple trees.
	Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the model.
	
	Our procedures included, amongst others:
	
	• Evaluating the Group's processes in respect of the independent valuation of the apple trees including its review of the valuation methodology and determination of the key valuation assumptions.
	• Engaging a Deloitte valuation specialist to consider whether the valuation method applied is reasonable.
	• Assessing the competence, objectivity and integrity of the Group's independent registered valuer. This included assessing the valuer's professional qualifications, experience and independence. It also included meeting with the valuer to understand the valuation process adopted and to identify and challenge the critical judgement areas in the valuation.
	• Assessing the valuation methodology for consistency with the the most recent valuation ("2016 valuation") and determining whether any changes to the methodology were appropriate.
	• Challenging the reasonableness of the key assumptions by comparing them to the 2016 valuation, the Group's internal data and current market evidence.
	  – We tested estimated production levels per hectare by comparing orchard hectares in production with the 2016 valuation. We compared the production levels per hectare to external production data as well as internal production data for the previous season.
	  – We tested the orchard gate returns by comparing these to actual sales returns received during the previous year.
	    ◦ We challenged orchard costs by comparing orchard costs to the 2016 valuation and available market data.
	    ◦ We challenged the discount rates by comparing them with 2016 valuation discount rates and considering the risks associated with the orchards.
	• Checking the mechanical accuracy of the discounted cash flow models on a sample basis.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Michael Wilkes, Partner
for Deloitte Limited
Christchurch, New Zealand
26 February 2019

CORPORATE GOVERNANCE STATEMENT

The Board of Scales Corporation Limited (Scales or the Company) is committed to ensuring that the Company meets best practice governance principles and maintains the highest ethical standards. This Corporate Governance Statement provides an overview of the Company's governance framework. It is structured to follow the NZX Corporate Governance Code (NZX Code) and discloses the practices relating to the NZX Code's recommendations.

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

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

Scales will transition to the new NZX Listing Rules with effect from 1 May 2019. Accordingly, this Corporate Governance Statement has been prepared in accordance with the NZX Code that was published in 2017. Scales will prepare its Corporate Governance Statement for the year ended 31 December 2019 in accordance with the NZX Code dated 1 January 2019.

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

Scales' Corporate Governance Code (the Scales Code) was reviewed and updated in February 2018 and is reviewed annually. This Corporate Governance Statement was approved by the Board on 22 March 2019.

Principle 1 – Code of Ethical Behaviour

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

RECOMMENDATION 1.1

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

Code of Ethics

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

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

- standards of behaviour;
- conflicts of interest;
- proper use of Company information and assets;
- accepting gifts;
- delegated authorities;
- compliance with laws and policies;
- reporting concerns; and corporate opportunities.

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

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

During 2018 the Board undertook specific Anti-Bribery and Corruption training, along with Company senior management. The Board will continue to assess the appropriate options for Company-wide ethics training in order for the Company to fully meet the ethics training recommendation.

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

RECOMMENDATION 1.2

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

Share trading by Company Directors and Employees

The Board has implemented formal procedures to handle trading in the Company's securities by Directors, employees and advisors of the Company, with approval being required before trading can occur. Approval is required to be obtained from the Chair, other Directors, CEO or the Chief Financial Officer depending on who is trading. A blackout period is imposed for all Directors and employees between the end of the half year and full year and the release to NZX of the result for that period.

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

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

Principle 2 – Board Composition & Performance

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

RECOMMENDATION 2.1

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

Responsibilities of the Board

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

The main functions of the Board include to:

- Review and approve the strategic, business 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 the Scales Code.

RECOMMENDATION 2.2

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

Director nomination and appointment

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

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

Using the Board skills matrix the Board has determined that to operate effectively and to meet its responsibilities it requires competencies in disciplines including executive leadership and strategy, governance, agriculture, storage and logistics, finance and capital markets, risk and compliance, legal and regulatory, people, digital and technology, export, retail and doing business in China.The recent appointment of Nadine Tunley as a director brings specific experience in horticulture, international trade and governance.

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

As at 31 December 2018 the Board has a majority of Independent Directors. Director independence is considered on a case-by-case basis and is monitored on an ongoing basis.

RECOMMENDATION 2.3

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

Letter of appointment

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

RECOMMENDATION 2.4 AND 2.8

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

The Chair and the CEO should be different people.

Board of Directors

A profile of each of the Directors is on pages 39 – 40 of this report. The profiles include information on the year of appointment, skills, experience and background of each Director.

Tim Goodacre is the Independent Chair of Scales. Nick Harris, Mark Hutton, Alan Isaac and Nadine Tunley are Independent Directors. Tomakin Lai is the Vice President, Chief Financial Officer and Company Secretary of China Resources Enterprise, Limited, the parent company of China Resources Ng Fung Limited, holder of a 15.24% shareholding in the Company. Mr Lai is a non-executive Director.

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

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

The Board determines annually on a case-by-case basis on the advice of the Nominations and Remuneration Committee who, in its view, are Independent Directors. The guidelines set out in the NZX Listing Rules (para.3.3.1) are used for this purpose.

Ownership of Scales shares by Directors is encouraged rather than being a requirement. Directors' ownership interests are disclosed at page 99.

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

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

Interests Register

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

Particulars of entries made in the Interests Register for the year ended 31 December 2018 are included in the Director Disclosures section on page 99.

RECOMMENDATION 2.5

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

Diversity

Scales recognises the value in diversity of thinking and skills, and seeks to ensure that the Board and workforce both comprise members reflecting diversity. A formal Diversity Policy has been adopted by the Board.

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

Additions to the Board in the past year have been:

- Lai Po Sing, Tomakin, continuing China Resources Ng Fung representation following the resignation of Weiyong Wang;
- Nadine Tunley, who brings extensive experience in horticulture, international trade and governance.

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

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

Responsibility for workplace diversity and the setting of measurable objectives is held by the Nominations and Remuneration Committee. The Committee continues to assess desired measurable objectives and consequently is not fully compliant with Recommendation 2.5.

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 2018		As at 31 December 2017	
Position	**Female**	**Male**	**Female**	**Male**
Director*	0 (0%)	6 (100%)	1 (14%)	6 (86%)
Senior Managers	1 (17%)	5 (83%)	1 (14%)	6 (86%)
Management Team (excluding Senior Managers)	12 (35%)	22 (65%)	14 (35%)	26 (65%)

*2017 figure includes Carol Chen as Alternate Director. There were no Alternate Directors as at 31 December 2018.

RECOMMENDATION 2.6

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

DIRECTOR TRAINING

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

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

RECOMMENDATION 2.7

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

Board Performance Evaluation

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

Principle 3 – Board Committees

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

Board Committees

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

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

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

Attendance at Meetings

The table below sets out Director attendance at Board and Committee meetings during the year ended 31 December 2018.

	Board		Audit and Risk Management Committee		Nominations and Remuneration Committee		Finance and Treasury Committee		Health and Safety Committee	
	Eligible to attend	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**
Andrew Borland	11	11	-	-	-	-	4	4	5	5
Carol Chen*	5	4	-	-	-	-	-	-	-	-
Tim Goodacre	11	11	-	-	6	6	-	-	-	-
Nick Harris	11	8	6	4	-	-	-	-	5	4
Mark Hutton	11	11	6	6	6	6	4	4	-	-
Alan Isaac	11	10	6	6	-	-	-	-	-	-
Nelson Liu*	6	4	-	-	-	-	-	-	-	-
Weiyong Wang	11	6	-	-	-	-	-	-	-	-

*Carol Chen resigned as Alternate Director to Weiyong Wang on 15 June 2018. Nelson Liu was appointed as Alternate Director to Weiyong Wang on 15 June 2018, and resigned on 18 December 2018.

RECOMMENDATION 3.1

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

Audit and Risk Management Committee

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

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

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

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

RECOMMENDATION 3.2

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

Meeting Attendance

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

RECOMMENDATION 3.3 AND 3.4

An issuer should have a Remuneration Committee which operates under a written charter.

Nominations and Remuneration Committee

The primary functions of the Nominations and Remuneration Committee are:

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

Members of the Committee are appointed by the Board and must comprise a majority of Independent Directors. The current members of the Committee are Mark Hutton (Chair) and Tim Goodacre.

Management attends Nomination and Remuneration Committee meetings if invited by the Committee.

The Committee met on six occasions during the year.

RECOMMENDATION 3.5

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

Health and Safety Committee

The Board's commitment to ensuring a safe and healthy workplace for staff, contractors and visitors led to it establishing a Health and Safety Committee.

The primary functions of the Committee are:

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

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

The Committee met on five occasions during the year.

Finance and Treasury Committee

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

The primary functions of the Committee are to:

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

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

The Committee met on four occasions during the year.

RECOMMENDATION 3.6

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

Takeover Protocols

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

Principle 4 – Reporting and Disclosure

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

RECOMMENDATION 4.1

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

Shareholder Communications and Market Disclosure

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

It achieves these commitments, and the promotion of investor confidence, by ensuring that trading in its shares takes place in an efficient, competitive and informed market. The Company has in place a written Shareholder Communications and Market Disclosure Policy designed to ensure this occurs. The policy includes procedures intended to ensure that disclosure is made in a timely and balanced manner and in compliance with the NZX Listing Rules, such that:

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

Accountability for compliance with disclosure obligations is with the Managing Director and Chief Financial Officer. Managers reporting to the Managing Director are required to provide the Chief Financial Officer with all relevant information that may be material and to regularly confirm that they have done so.

Significant market announcements, including the preliminary announcement of the half year and full year results, the financial statements for those periods, and any advice of a change in earnings forecast are approved by the Board.

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

RECOMMENDATION 4.2

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

Governance Policies and Charters

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

RECOMMENDATION 4.3

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

Financial and Non-Financial Reporting

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

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

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

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

Non-Financial Reporting

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

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

Principle 5 - Remuneration

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

Remuneration Report

Introduction

This Remuneration Report outlines the Company's overall reward strategy for the year ended 31 December 2018 and provides detailed information on the remuneration arrangements in this period for the Directors of the Company, the CEO and other nominated executives.

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

Remuneration Philosophy

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

The Nominations and Remuneration Committee reviews market data on remuneration structure and quantum. The remuneration packages of the CEO and nominated executives are structured to include a Short Term Incentive Scheme (STI Scheme) that is directly linked to the overall financial and operational performance of the Company. The CEO and nominated executives may also be invited to participate in the Company's Long Term Incentive Scheme (LTI Scheme). The long term benefits of the LTI Scheme are solely conditional upon the Company's share price meeting certain performance criteria, details of which are outlined below.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director remuneration is separate and distinct from the remuneration of the CEO and other executives.

Components of Compensation – Non-executive Directors

The Board seeks to set aggregate remuneration for non-executive Directors at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

No remuneration is payable to Directors unless it is approved by the Company's shareholders. The NZX Listing Rules specify that shareholders can approve a per-Director remuneration amount or an aggregate Directors' fee pool. Shareholders approved an aggregate remuneration pool for non-executive Directors of $500,000 per annum in 2017. An increase of the director fee pool will be proposed at the 2019 Annual Shareholders Meeting, subject to the election, at the meeting, of the additional Director appointed by the Board during the year.

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

Non-executive Directors have no entitlement to any performance-based remuneration or participation in any share-based incentive schemes. This policy reflects the differences in the role of the non-executive Directors, which is to provide oversight and guide strategy, and the role of management, which is to operate the business and execute the Company's strategy. Non-executive Directors are encouraged to be shareholders, but are not required to hold shares in the Company.

Each non-executive Director receives a fee for services as a Director of the Company and an additional fee is also paid for being a member of the Board Committees. The payment of an additional fee recognises the additional time commitment required by Directors who serve on those Committees. All Directors are also entitled to be reimbursed for costs associated with carrying out their duties.

Fees payable to the non-executive Directors of the Company for the period 1 January 2018 to 31 December 2018 were as follows:

Director	Base fee	Fees for serving on Nominations and Remuneration Committee	Fees for serving on Audit and Risk Management Committee	Fees for serving on the Board of Selacs Insurance Limited	Fees for serving on Health and Safety Committee	Fees for serving on Finance and Treasury Committee
Tim Goodacre	$131,000 (Chair)	$0	$0	$0	$0	$0
Alan Isaac	$65,000	$0	$18,000 (Chair)	$12,000	$0	$0
Nick Harris	$65,000	$0	$6,000	$0	$9,000 (Chair)	$0
Mark Hutton	$65,000	$12,000 (Chair)	$6,000	$0	$0	$9,000 (Chair)
Weiyong Wang	$65,000	$0	$0	$0	$0	$0

(a) Remuneration of the CEO and Employees

The number of employees of the Company (including former employees), not being a Director mentioned above, who received remuneration and other benefits in excess of $100,000 in the period 1 January 2018 to 31 December 2018 is set out in the remuneration bands detailed below:

Amount of Remuneration	Employees
$100,001 - $110,000	6
$110,001 - $120,000	9
$120,001 - $130,000	16
$130,001 - $140,000	9
$140,001 - $150,000	9
$150,001 - $160,000	5
$160,001 - $170,000	2
$170,001 - $180,000	1
$190,001 - $200,000	1
$200,001 - $210,000	1
$210,001 - $220,000	3
$220,001 - $230,000	1
$230,001 - $240,000	2
$240,001 - $250,000	1
$250,001 - $260,000	2
$270,001 - $280,000	2
$280,001 - $290,000	1
$300,001 - $310,000	1
$330,001 - $340,000	1
$350,001 - $360,000	2
$390,001 - $400,000	2
$620,001 - $630,000	1

As set out in further detail below, the total remuneration and value of other benefits paid to the CEO (including under the STI Scheme and LTI Scheme detailed below) for the year ended 31 December 2018 was $1,079,259 (2017: $886,774).

(b) Components of Compensation – CEO and Nominated Executives

(i) Structure

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

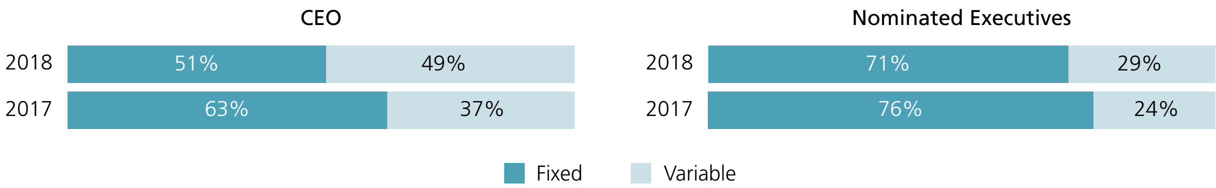
- Reward them for Company and business unit performance against targets set by reference to appropriate benchmarks and key performance indicators;
- Align their interests with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Remuneration consists of both fixed and variable remuneration components. The variable remuneration component comprises the STI Scheme and the LTI Scheme.

The proportion of fixed remuneration and variable remuneration is established for the CEO and for each nominated executive by the Board, following recommendations from the Nominations and Remuneration Committee and the CEO (in the case of the nominated executives).

The remuneration packages for the CEO and nominated executives are all subject to Board approval. During 2018 there were no material changes to the structure or targets for the fixed or STI remuneration. The existing LTI scheme was extended for a further three year period for all nominated executives with the Total Shareholder Return (TSR) gross hurdle rate increased to 20.0% based on the share price from the date of joining the scheme. In addition, selected executives were provided with a new one-off opportunity to increase their participation in the scheme with additional shares being allocated over the next three year period.

The mix of fixed and variable 'at risk' remuneration payable in respect of 2018 and 2017 was as follows:



(ii) Fixed annual remuneration

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

The CEO and nominated executives receive their fixed annual remuneration in cash and a limited range of prescribed fringe benefits such as superannuation, motor vehicle and health insurance. The total employment cost of any remuneration package, including fringe benefit tax, is taken into account in determining an employee's fixed annual remuneration.

For the financial year ended 31 December 2018, the CEO received $551,553 (2017: $562,350) in fixed annual remuneration. The annual cash remuneration and LTI scheme are linked and fixed for a three year period.

(iii) Variable remuneration – STI Scheme

The objective of the STI Scheme is to link the achievement of the annual financial and operational targets with the remuneration received by the executives charged with meeting those targets. The total potential remuneration under the STI Scheme is set at a level so as to provide sufficient incentive to the executive to achieve the targets such that the cost to the Company is flexible and in line with the trading outcome for the year.

Actual STI Scheme payments granted to the CEO and each nominated executive depend on the extent to which specific targets, set at the beginning of the year, are met. The targets may include a weighted combination of:

- At least 40% for meeting budget or target Underlying Net Profit after Tax for the Group; plus
- At least 40% for meeting budget or target Underlying Net Profit after Tax and/or Return on Capital Employed for the group or business unit; and
- Any balance for strategic objectives; and other contributions.

The Nominations and Remuneration Committee consider the performance against the targets, and determine the amount, if any, to be allocated to the CEO and nominated executives. STI Scheme payments relating to the financial year ended 31 December 2018 are delivered as a taxable cash bonus and are payable on completion of the annual audited financial statements. It should be noted that the level of remuneration detailed in this report for the CEO includes the bonus paid in early 2018 relating to the 2017 financial year. The actual amount paid for all nominated executives in the STI Scheme for 2017 was $675,000 and the total accrual for 2018 is $942,872, being 96% of the total pool for the year.

The STI Scheme payment for the CEO relating directly to the financial year ended 31 December 2018 has been approved for payment, with the CEO receiving $144,000 (2017: $80,133), being 100% of his maximum available bonus.

STI Scheme payment values are set as a percentage of base cash remuneration, being 30% for the CEO and between 10% and 30% for other nominated executives for the financial year ended 31 December 2018. For the financial year ended 31 December 2018 there were 47 nominated executives in the STI Scheme, a decrease of 2 from the 2017 year.

In addition to the STI Scheme the Board reserves the ability to pay ad hoc bonus payments to any employee, again directly related with the trading outcome.

(iv) Variable remuneration – LTI Scheme

The LTI Scheme has been designed to link reward with key performance indicators that drive sustainable growth in shareholder value over the long term. The objectives of the LTI Scheme are to:

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

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

Under the LTI Scheme, the CEO and nominated executives are offered an interest free loan which is to be applied to acquire shares in the Company. Shares acquired under the LTI Scheme are held by a custodian and will only vest in the employee if he or she is still employed by the Company after three years from the date of issue. Once the shares vest, the employee still remains obligated to repay the outstanding balance of the loan. Often to fund the repayment of the outstanding loans, executives may, subject to the approved procedures, sell on market their LTI vested shares. Over the next twelve months a total of 287,646 shares vest from 22 April 2019 (as detailed in the table below). Alternatively, if an employee leaves employment before the expiry of the three year period, the Company is authorised to sell that employee's shares with the proceeds applied to repay the balance of the loan, with any deficit covered by the Company and any surplus retained by the Company.

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

Each employee's loan amount (which determines how many shares will be acquired) is set as a percentage of their base cash remuneration and selected employees will be offered a loan for this amount if the criteria set by the Board are met. For the next three years of the LTI Scheme, from 2018 until the 2020 allocation, the criterion is the achievement of a gross TSR of 20.0% (previously 12.5%) over the reference share price. The reference share price for all new participants is set at the time of joining the scheme.

An offer may be made under the LTI Scheme to the CEO and nominated executives each financial year and is based on individual performance as assessed by the annual appraisal process. If an executive does not sustain a consistent level of high performance they will not be nominated for participation in the LTI Scheme. The Nominations and Remuneration Committee reviews all nominated executives, with participation in the LTI Scheme subject to final Board approval. The Board has retained the discretion to vary the applicable criteria for each offer under the LTI Scheme. Once the Board has fixed the criteria for a specific offer under the LTI Scheme, those performance hurdles cannot be varied in respect of that offer.

LTI Scheme loan amounts are set as a percentage of base cash remuneration, being 30% for the CEO and 10%-20% for other nominated executives in respect of the financial year ended 31 December 2018. For the financial year ended 31 December 2018, there were 47 nominated executives in the LTI Scheme, a decrease of 2 from the 2017 year.

In addition to the existing LTI scheme, selected executives were provided with a one-off opportunity to increase their participation in the share based LTI scheme with additional shares being allocated over the next three year period. The final allocation price is referenced to the share price at the time of implementation. For 2018 the total additional shares issued was 207,023 shares. This allocation replaces the highly successful original IPO Allocation and the board believes is consistent with our objective to encourage executives to think and act like owners.

During the financial year ended 31 December 2018, 386,282 shares were allocated under the LTI Scheme relating to the 2017 financial year with matching interest free loans of $763,752, an average of $1.98 per share. The CEO will receive 52,941 shares in the Company under the LTI Scheme relating to the financial year ended 31 December 2018, compared to 84,706 shares relating to the previous year. As at the end of the financial year ended 31 December 2018, the total balance owing under the loans advanced to the CEO under the LTI Scheme was $625,422 and $1,128,253 to nominated executives. Note that under accounting treatment, loans relating to unvested shares are not recorded on the Company balance sheet.

In total, the CEO at year end held 306,413 shares under the LTI scheme which are subject to vesting constraints.

As at year end total loans, for vested shares, which are now full recourse, of $587,715 remain outstanding and are recorded on the company balance sheet. The executives are obligated to repay the outstanding loan balance on the sale of the shares or on termination of employment.

Total shares allocated under the scheme as at the end of the financial year ended 31 December 2018 are as follows:

Grant date	Vesting date	Exercise price ($)	Number of shares				
			Opening balance	Granted	Forfeited	Vested and exercised	Closing balance
8 May 2015 - BF	8 May 2018	1.66	96,193	-	-	96,193	-
22 April 2016 - FY15	22 April 2019	1.67	298,998	-	11,352	-	287,646
5 May 2017 - FY16A	5 May 2020	1.70	290,031	-	11,152	-	278,879
5 May 2017 - FY16B	5 May 2020	2.45	35,834	-	-	-	35,834
20 April 2018 - FY17A	20 April 2021	1.70	-	309,698	-	-	309,698
20 April 2018 - FY17B	20 April 2021	2.51	-	36,007	-	-	36,007
20 April 2018 - FY17C	20 April 2021	3.62	-	40,577	-	-	40,577
28 June 2018 - FY17R	28 June 2021	4.13	-	207,023	-	-	207,023
Total			**721,056**	**593,305**	**22,504**	**96,193**	**1,195,664**

The total cost of the LTI Scheme relating to share allocations made during 2018 was $1,782,844. Under accounting standard IFRS 2 *Share Based Payments*, the total option value of each annual allocation is spread across the three years of the vesting period from the date of issue. As a result, the total expense recorded in the Statement of Comprehensive Income for the financial year ended 31 December 2018 is $846,796. The total cost relating to each annual share allocation will be cumulative.

The total annual cost of the LTI Scheme relating to shares issued from 2014 to 2018 is detailed below. In addition, the annual allocation spread across the three years of the vesting period is as follows:

Financial Year	LTI Year	Allocation Cost at Grant Date	P&L Amortisation*
2014	IPO	$469,985	$65,000
2015	2014	$31,465	$167,850
2016	2015	$517,879	$269,719
2017	2016	$572,866	$388,732
2018	2017	$1,251,325	$846,796
2019*			$397,056
2020*			$479,547
2021*			$140,447

*The forecast years assume no further Allocations.

It should be noted the level of remuneration detailed in this report for the CEO for 2018 includes all of the pro-rata portion of the accounting expense of the LTI Scheme to date. The actual cost relating to the 2018 LTI Scheme allocation will be included in the 2019 remuneration amount reported.

(v) Employee share ownership scheme

At the time of the Company's initial public offering, it established an employee share ownership scheme to facilitate an increase in the level of participation by employees as shareholders, which improves the alignment of interests between employees and shareholders. Under the scheme, each eligible employee was offered an interest free loan up to $5,000 to fund 50% of the subscription price for the shares which the employee wished to acquire in the Company. Employees are obliged to repay their loans when the shares are sold or when they leave the Company.

Principle 6 – Risk Management

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

RECOMMENDATION 6.1

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

Risk Management Framework

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

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

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

The objectives of the framework are to:

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

The Board has delegated responsibility to the Audit and Risk Management Committee to establish and regularly review the Company's risk management framework. As part of this framework the Committee is tasked with identifying situations and circumstances in which the Company may be materially at risk, and initiating appropriate action through the Board or Managing Director. A risk management policy is overseen by the Managing Director and supports a comprehensive approach to the management of those risks identified as material to the Company's operations. Risk management is a standing item on the agenda for Audit and Risk Management Committee meetings, with detailed reports provided by management.

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

Insurance

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

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

RECOMMENDATION 6.2

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

Health and Safety

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

Principle 7 – Auditors

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

RECOMMENDATION 7.1 AND 7.2

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

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

External Auditor

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

The policy covers the following areas:

- Appointment of the external auditor.
- Provision of other assurance services by the external auditor.
- Pre-approval process for the provision of other assurance services.
- External auditor lead and engagement partner rotation.
- Hiring of staff from the external auditor.
- Relationships between the external auditor and the Company.
- Reporting on fees and non-audit work.

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

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

Deloitte Limited is the Company's current external auditor. Michael Wilkes has been the audit engagement partner following a partner rotation after the completion of the 2015 audit. Michael was previously the audit engagement partner for the seven years up to 2012.

All services provided by the Company's external auditor are considered on a case by case basis by Management and the Audit and Risk Management Committee to ensure there is no actual or perceived threat to independence in accordance with the policy. The external auditor has provided the Audit and Risk Management Committee with written confirmation that, in his view, he was able to operate independently during the year.

Fees paid to Deloitte Limited are included in note B2 of the notes to the financial statements. A total of $206,000 was paid to Deloitte Limited for audit-related services. In addition, fees of $5,730 were paid to Deloitte Limited for non-audit work during the year. All non-audit services provided must have the prior approval of the Audit and Risk Management Committee.

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

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

RECOMMENDATION 7.3

Internal audit functions should be disclosed.

Internal Audit

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

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

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

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

Principle 8 – Shareholder Relations

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

RECOMMENDATION 8.1

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

Shareholder Relations

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

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

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

Shareholder meetings will be held at a time and location to encourage participation in person by shareholders. Annual meetings to date have been held in Christchurch, reflecting the head office location for the Company, and the historical shareholder base.

RECOMMENDATION 8.2

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

Electronic Communications

Shareholders have the option of receiving their communications electronically.

Contact details for Scales' head office are available on the website.

RECOMMENDATION 8.3

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

Major Decisions

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

RECOMMENDATION 8.4

Each person who invests money in a company should have one vote per share of the company they own equally with other shareholders.

Voting

Scales conducts voting at its Annual Shareholder Meetings by way of poll and on the basis of one share, one vote.

RECOMMENDATION 8.5

The board should ensure that the annual shareholders notice of meeting is posted on the issuer's website as soon as possible and at least 28 days prior to the meeting.

Notice of Meeting

Scales' Notice of Meeting will be available at least 28 days prior to the meeting on the Shareholder Meetings page in the Investors section of the website.

DIRECTOR DISCLOSURES

Directors

The following persons were Directors of Scales and its subsidiaries during the year ended 31 December 2018:

Scales Corporation Limited

Andrew Borland	Executive Director
Carol Chen (resigned 15 June 2018)	Alternate Director
Tim Goodacre	Independent Chair
Nick Harris	Independent Director
Mark Hutton	Independent Director
Alan Isaac	Independent Director
Nelson Liu (appointed 15 June 2018, resigned 18 December 2018)	Alternate Director
Weiyong Wang	Director

Fern Ridge Produce Limited

Russell Black

Andrew Borland

Hamish Davis

Andrew van Workum

Geo.H.Scales Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Liqueo Bulk Storage Limited

Andrew Borland (resigned 13 August 2018)

Kevin Cahill (resigned 13 August 2018)

Longview Group Holdings Limited

Andrew Borland

Andrew van Workum

Longview New Zealand Limited (removed from the register 9 November 2018)

Andrew Borland

Andrew van Workum

Longview Packhouse Limited (removed from the register 9 November 2018)

Andrew Borland

Andrew van Workum

Meateor Foods Limited

Andrew Borland

Stephen Foote (resigned 28 May 2018)

Nick Harris

Meateor Foods Australia Pty Limited

Andrew Borland

Tim Goodacre

Meateor Group Limited

Andrew Borland (appointed 25 May 2018)

Nick Harris (appointed 25 May 2018)

Meateor US LLC

Andrew Borland (appointed 6 December 2018)

John Sainsbury (appointed 6 December 2018)

Mr Apple New Zealand Limited

Andrew Borland

Tim Goodacre

Mark Hutton

New Zealand Apple Limited

Andrew Borland

Tim Goodacre

Scales Logistics Australia Pty Limited (formerly OceanAir Freight Pty Limited)

Andrew Borland

Tim Goodacre

Polarcold Stores Limited

Andrew Borland

Nick Harris

Mark Hutton

Scales Employees Limited

Andrew Borland

Mark Hutton

Scales Holdings Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Scales Logistics Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Selacs Insurance Limited

Andrew Borland

Alan Isaac

Steve Kennelly

Shelby Exports, Inc.

Brett Frankel (appointed 8 June 2010)

Bruce Curtis (appointed 8 June 2010)

Shelby JV LLC

Andrew Borland (appointed 20 December 2018)

John Sainsbury (appointed 20 December 2018)

Brett Frankel (appointed 6 December 2018)

Bruce Curtis (appointed 6 December 2018)

Whakatu Coldstores Limited

Andrew Borland

Stephen Foote

Interests Register

The following entries were made in the interests register of Scales and its subsidiaries during the period 1 January 2018 to 31 December 2018:

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 2018 as entered in the Interests Register of Scales are as follows:

Name of Director	No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition / Disposal
Andrew Borland	84,706	Beneficial owner	Acquisition	$4.46 per share	20 April 2018
Andrew Borland	750,000	Registered holder, together with Gina Dellabarca and Mark Bolton, as trustees of the Borland Dellabarca Family Trust, of which Andrew Borland is a discretionary beneficiary.	Disposal	$4.73 per share	24 May 2018
Andrew Borland	77,482	Beneficial owner	Acquisition	$4.71 per share	28 June 2018

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 2018 to 31 December 2018 are as follows:

Scales Corporation Limited	
Andrew Borland	
Loganbrae Limited	Ceased as a Director
Alan Isaac	
Basin Reserve Trust	Appointed as Chair
Fliway Group Limited	Ceased as a Director
New Zealand Vault Depository Limited	Appointed as a Director
New Zealand Vault Depository Limited	Ceased as a Director
New Zealand Vault Limited	Ceased as a Director
Opus International Consultants Limited	Ceased as a Director
Nelson Liu	
China Resources Ng Fung Limited	Noted as a related party

Relevant Interests

The table below records the Scales ordinary shares in which each Director had a relevant interest as at 31 December 2018.

Director	Number of Ordinary Shares – Beneficial	Number of Ordinary Shares – Non-Beneficial
Andrew Borland	306,413	750,000
Tim Goodacre	15,625	Nil
Nick Harris	100,000	Nil
Mark Hutton	Nil	748,277
Alan Isaac	25,000	3,000
Weiyong Wang	Nil	Nil

Use of Company Information by Directors

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

Auditor's Fees

Deloitte Limited has continued to act as the auditor of Scales and its subsidiaries. The amount payable by Scales and its subsidiaries to Deloitte Limited as audit fees during the year ended 31 December 2018 was $206,000. In addition, fees of $5,730 were paid to Deloitte Limited for non-audit work during the year.

Shareholder Information

Spread of Shares

Set out below are details of the spread of shareholders of Scales as at 31 January 2019:

	Number of Shareholders	Number of Shares Held	% of Shares Held
Under 2,000	993	966,433	0.69
2,000 to 4,999	1,260	3,866,284	2.76
5,000 to 9,999	816	5,329,599	3.80
10,000 to 49,999	809	14,621,750	10.43
50,000 to 99,999	73	4,907,863	3.50
100,000 and over	70	110,499,109	78.82

20 Largest Shareholders

Set out below are details of the 20 largest shareholders of Scales as at 31 January 2019:

Shareholder	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	41,736,699	29.58
China Resources Ng Fung Limited	21,500,000	15.24
FNZ Custodians Limited	7,641,137	5.42
Custodial Services Limited	6,350,484	4.50
Custodial Services Limited	4,040,573	2.86
Custodial Services Limited	2,912,233	2.06
John Grant Sinclair & Camille Elizabeth Sinclair	2,241,000	1.59
Custodial Services Limited	1,992,283	1.41
John Grant Sinclair	1,745,499	1.24
Custodial Services Limited	1,710,150	1.21
PT (Booster Investments) Nominees Limited	1,525,035	1.08
Scales Employees Limited	1,195,664	0.85
New Zealand Depository Nominee Limited	1,118,850	0.79
Forsyth Barr Custodians Limited	1,040,120	0.74
Custodial Services Limited	964,938	0.68
Investment Custodial Services Limited	825,619	0.59
FNZ Custodians Limited	818,459	0.58
Andrew James Borland & Gina Dellabarca & Mark Andrew Bolton	750,000	0.53
Woolf Fisher Trust Incorporated	680,000	0.48
JB Were (NZ) Nominees Limited	618,875	0.44
Total	**101,407,618**	**71.87**

Substantial Product Holders

Set out below are details of the substantial product holders of Scales as advised by notice to Scales at 31 December 2018.

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 2018.

Name	Number of Shares	Class of Shares
China Resources Ng Fung Limited	21,500,000	Ordinary
Harbour Asset Management Limited	13,109,060	Ordinary
Salt Funds Management Limited	7,049,397	Ordinary

The total number of Scales Corporation Limited ordinary shares on issue as at 31 December 2018 was 141,103,597.

Other Information

NZX Waivers

Scales did not rely upon any waivers granted by NZX Limited during the year ended 31 December 2018.

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 2018.

Donations

Donations of $6,790 were made by Scales during the year ended 31 December 2018.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DIRECTORY

Board of Directors

Tim Goodacre (Chair)
Andrew Borland (Managing Director)
Carol Chen (Alternate Director for Weiyong Wang, resigned on 15 June 2018)
Nick Harris
Mark Hutton
Alan Isaac
Lai Po Sing, Tomakin (Appointed on 28 January 2019)
Weiyong Wang (Resigned on 28 January 2019)
Nelson Liu (Alternate Director for Weiyong Wang, appointed 15 June 2018, resigned on 18 December 2018)
Nadine Tunley (Appointed on 26 February 2019)

Audit and Risk Management Committee

Alan Isaac (Chair)
Nick Harris
Mark Hutton

Nominations and Remuneration Committee

Mark Hutton (Chair)
Tim Goodacre

Finance and Treasury Committee

Mark Hutton (Chair)
Andrew Borland

Health and Safety Committee

Nick Harris (Chair)
Andrew Borland

Registered Office

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Postal Address

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Telephone

64-3-379-7720

Website

www.scalescorporation.co.nz

Auditor

Deloitte Limited

Level 4
151 Cambridge Terrace
Christchurch 8013

Bankers

ANZ Bank New Zealand Limited

Level 3
ANZ Centre
267 High Street
Christchurch 8011

Rabobank New Zealand Limited

Level 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 Advisor

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

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